

BELARUSIAN INSTITUTE FOR STRATEGIC STUDIES
WEBSITE OF THE EXPERT COMMUNITY OF BELARUS «NASHE MNENIE» (*OUR OPINION*)

BELARUSIAN YEARBOOK

2010

**A survey and analysis of developments
in the Republic of Belarus in 2010**

Minsk, 2011

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*The yearbook is published with support
of The German Marshall Fund of the United States*

The opinions expressed are those of the authors, and do not necessarily represent the opinion of the editorial board.

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EDITORIAL FOREWORD

The *Belarusian Yearbook* is a long-term joint project of Belarus' expert community. This publication presents an integral analysis of the state of affairs in essential domains of state and society on an annual basis.

The presidential election campaign of 2010 predetermined the developments in almost every segment of social and state life, while the finale of the campaign — the brutal dispersion of the rally in the Independence Square — has already had an impact on all aspects of state life with no exception (including the sectors that have traditionally stayed out of politics — sports, pop-culture, etc.)

Below are the key trends of the year 2010, based on a complex content-analysis of the *Yearbook's* texts:

- Decision-making authority is concentrated within a progressively narrowing group of people who bear no responsibility whatsoever for implementation;
- The deteriorating state administration crisis manifested itself in a misalignment of policies pursued by state institutions, primarily due to the widening gap between those making decisions and those responsible for implementation;
- The series of successful attempts to fit into the regional political and economic context through modifications of the foreign political paradigm became a trend that was ruined by late-year developments;
- Less successful, but not less persistent attempts to overcome the isolation of the state and society were made throughout the year by both sides, but then again, the outcomes of the December 2010 events froze all the positive trends;
- Belarus has made a name in the global economic system, mostly as a borrower, and completed the year as a debtor with vague repayment prospects.

Contributing to this Yearbook were independent analysts and experts, as well as specialists representing various think tanks, including the Belarusian Institute for Strategic Studies (BISS), the Institute for Political Studies "Political Sphere", the Research Center of the Institute for Privatization and Management, the Agency of Humanitarian Technologies — Centre for Social Innovation, NOVAK Axiometrical Research Laboratory, the Independent Institute of Socio-Economic and Political Studies (IISEPS), the Belarusian Economic

Research and Outreach Center (*BEROC*), the Centre for Eastern Studies (Warsaw, Poland), the Polesski Fund of International and Regional Studies (Chernigov, Ukraine), *eBelarus* Research Center.

As a joint effort, the *Yearbook* is designed to promote public discussions about current transformations in Belarus and development options the country has, and facilitate the work of state functionaries, business managers, members of the diplomatic corps, journalists, politicians and community leaders.

Valeria Kostyugova
Anatoly Pankovsky
Vitaly Silitsky

STATE AUTHORITY

PRESIDENTIAL ADMINISTRATION AND SECURITY AGENCIES: BEFORE AND AFTER THE PRESIDENTIAL ELECTION

Pyotr Valuev

Summary

The process of transformation of Belarusian security agencies started after Viktor Sheyman vacated the office of state secretary of the Security Council that also entailed reauthorization and reallocation of duties in other security agencies. As a result, special services and security agencies were actually subordinated to the Presidential Administration, or, to be more exact, to President's National Security Aide Viktor Lukashenko, the eldest son of the Belarusian president. Control over the strongest and most effective special services is thus concentrated in "one hand."

The changes above, and also the 19 December events and the crackdown on the opposition that followed, interrupted the dialogue with the European Union, which was one step away from recognition of Lukashenko's Victory (on certain terms) and aiding him financially. Given the substantial disagreements among Belarus and Russia, Alexander Lukashenko faces not easily soluble problems, first of all economic, caused by the lack of resources to keep the present model functioning. Besides, there were other serious problems inside the country, specifically the dropping popularity rating on the threshold of the election, the opposition backed by the West, functionaries uncertain about their future, special services balled in "one fist", the lack of a consolidating ideological core, and so on. In 2011, Alexander Lukashenko will keep trying to balance between Russia, the West, and home policy vectors.

Tendencies:

- De jure and/or de facto, security agencies and special services found themselves underfoot of the Presidential Administration, to be more exact, President's National Security Aide Viktor Lukashenko;
- Inconsistency of actions and misunderstanding throughout the past year (including the pre-election period) within the "opposition-Europe-Lukashenko" triangle resulted in the 19 December events and reprisals that followed, against the background of the frozen dialogue with Europe.

Reform called "Viktor Lukashenko"

In contemporary Belarus, the hierarchy of governmental agencies is less important than the person who controls it all. The Security Council used to supervise special services before 2008. The Presidential

Administration or, as a matter of fact, President's National Security Aide Viktor Lukashenko, took over control. As a result, the Security Council turned into an advisory board. Although Viktor Lukashenko is a member himself, it did not enable the Council to make any particular decisions.

Realignment of human resources began in 2008 and gained momentum in the autumn of the same year after Viktor Sheyman resigned his office of secretary general of the Security Council.

Viktor Lukashenko controlled security agencies single-handedly in 2009 and 2010. He certainly made use of advice from more experienced fellows, who had been building up political muscle for years in top floor offices. However, the 2009 and 2010 personnel reshuffles were initiated by Viktor Lukashenko personally. A few scandals surfaced at that time, namely the criminal charges pressed against officers of the State Control Committee's Financial Investigations Department and high-ranking KGB officers.

Essential changes occurred in 2010 in Viktor Lukashenko's backing agency – the Operating Analytical Centre (OAC) formed at the Presidential Administration. Earlier, the Center had the status of a complementary special service, which was not only engaged in investigations, but also had agents in all government institutions from the Ministry of Labor and Ministry of Sports to regional tax offices. In 2010, it was finally assigned the status of the State Center for Information Security, which was earlier subordinate to the Council of Ministers. It was followed by staff changes in the OAC and dismissal of Sheyman's people.

Today, the OAC performs a lot more functions. In 2009, the Center focused on the fight against corruption and, to a lesser extent, political inquiries. After a year, it was commissioned to monitor streams of information and actually to control the Internet. So, the OAC plays a more important role now, although it has got a bit weaker. The OAC lost fighters, but still has analysts, political technologists with a well-developed infrastructure for high-grade internal political investigations, and information departments capable of controlling the Internet, as well as determining the human resources policy.

Basically, the OAC's "muscles" were brought out in the outside. Sheyman supervised a simplified command system, which provided for direct subordination of entities like the special rapid response unit (SOBR) to the Security Council. After the reshuffle in security agencies lobbied by Viktor Lukashenko, the whole system was retailored to match his ambitions, specifically to bring him up to a higher level of

the political pyramid in view of his more appropriate destination, rather than just the position of a president's assistant.

After all, a new agency emerged and it had the right to examine any sector of economy, security agencies, human resources, etc.

It concentrates enough resources to pull strings at different levels. However, it is not about the overall control since even Viktor Lukashenko is not omnipotent.

Moving of the president's son to the forefront complicated the decision-making process in the Presidential Administration to a certain degree. The Viktor Lukashenko team could influence economic decisions heavily. It is enough to mention that his team worked on the sale of Belaruskali, and not only the government, but also the OAC provided its expert opinion.

The system of influence centers in both the government and Presidential Administration downgraded to simple allocation of duties in the Administration. Journalists are groping for striking metaphors and keep writing about "hawks and pigeons", while it is more appropriate to talk about "hawks and hawks." The only thing is that some of them are white and the others are black.

Vladimir Makey's group, which unites foreign policy professionals, can be identified as the "white hawks." The group was more or less independent, because Viktor Lukashenko was actually too far from foreign policy, although his agencies were involved in 2008, when the idea of a dialogue between the West and Belarus was brought back to life once again, and Viktor Lukashenko prepared several research notes, which helped the president to choose the concept offered by Mr. Makey. It is not improbable that those notes were at least as good as the reports coming from the Foreign Ministry.

However, Viktor Lukashenko's influence has no feedback as he lacks long-term contacts with foreign politicians. He did not promise anything to anyone personally, except for Javier Solana. But nobody knows what he promised.

Today (and earlier, of course), political weight in governmental circles is determined by personal access to the Belarusian ruler. Viktor Lukashenko has the greatest opportunities, as he meets with the president at least twice a week.

Operating Analytical Centre vs. State Security Committee

Meanwhile, the relations between the OAC and KGB remain quite intense. The latter is an institutional agency with extensive capacities

and resources for full-range activities. Both agencies confront each other now and again and it is usually called "little misunderstandings", the impacts of which go up to the surface sometimes. But no one sees a real fight between the special services.

The KGB is directly subordinated to the president. The chairman is entitled to come to the president with weekly reports. During such troubled times as now, the KGB chief can report almost every day. Now he plays the biggest role ever. The OAC thus fell by the wayside, as it cannot influence investigative procedures directly. The mutual relations between the KGB and OAC are complicated not because the "vertical" is erected in a wrong way, but because the OAC is not always aware of what the KGB is up to and vice versa. And it is not a fight between the two special services, but simply non-coordination.

As concerns the State Control Committee (SCC), it should not be regarded as a special service. The SCC wields less power despite direct subordination to the president. On the contrary, special services assess all actions of the SCC to be sure that all inspections are conducted "in an appropriate manner". The SCC's actions have not always been legitimate and lawful. Special services clamped down on many anti-market attempts of state controllers as they were inconsistent with the liberalization policy, like it happened with the tobacco market, alcoholic beverages, and exports where the SCC overstepped authority not only to replenish the state treasury, but also to satisfy its own appetite.

With security agencies' reattachment to Viktor Lukashenko, President's National Security Aide within the structure of the Presidential Administration, the position of the Administration consolidated even more. On the other hand, the struggle for power between the Administration and other government institutions shifted inside the Administration.

In 2010, the primary goal of special services — both the 4th department of the KGB and OAC — was to prepare for the presidential election. A special group was formed in the OAC to work on local, parliamentary, and presidential elections. Preparation for the local elections was started as early as spring 2009. The presidential pre-election campaign was launched at that time as well. The opposition entered the presidential campaign much later.

The second field of concern of the special services in 2008-2010 was fostering relations between the West and Belarus. The OAC and KGB were involved alongside the Foreign Ministry and Presidential Administration. The fight against corruption was the third direction.

President Lukashenko still wants to know who steals from him in a wrong way.

Expert examination of investment projects in the economic sector is one more direction. All targeted privatization projects on sales of land plots and production facilities, for example the Belaruskali case, passed through the OAC. The government offered an international investor for Belaruskali (it was a Chinese trader), but following an examination conducted by the OAC, the investor was replaced because "a trader cannot be an investor". Azot was also sold with the participation of special services, which took a hand in corporatization and stock sale.

Perhaps the only area where special services did not cut in was the supervision over local administrations, community outreach, and inspections directed by Makey as the management quality was what really mattered then. Nevertheless, the fifth line of special services' activity was personnel policy, and everyone knows that "cadres are all-important". For this reason, security services are entitled to study personnel files and make decisions on career assignments.

Information security should be mentioned here too. OAC officers worked on the decree on the Internet. Its first draft was much better than the final version, which provoked a burst of criticism on the part of Internet users and Belarusian civil society institutions.

It is safe to assume however that the first half of the year 2011 will pass under the influence of the KGB, which is in charge of all investigatory actions in relation to the opposition. The State Security Committee is assigned the political task to comb out the political field to give way to other, saner and more organized opposition forces. The second task the KGB is supposed to cope with is "to detect" a conspiracy in order to frighten government officials. In fact, a revolution can be successful provided that there are two basic components, namely mass street protest actions and a conspiracy inside the ruling elite. Therefore, these two components should be preventively nipped in the bud.

Everything is under suspicion: mutual non-compliance with obligations

December 19 events were a logical consequence of the excessively increased role of security agencies integrated into the political process. They can ensure any result except for electoral support. After the popularity rating report was put on Lukashenko's desk (and it was

only about a half voters who came to the ballot boxes), the force scenario was used and special services came upon the stage.

The work on cordoning the Square (Kastrychnickaja (Oktyabrskaya) Square of Minsk, the usual place for all sorts of rallies) was started long before the election. Enforcers used the methods they had been honing for such occasions. They were free to act as they thought fit in case many people come to protest. Presidential campaign consultant Viktor Sheyman, who actually managed the campaign, was ready at hand. And so happened what had to happen, as special services were preset for a counter play. The scale of actions and their consequences were determined by Lukashenko's decision and his fear of a probable conspiracy.

All security agencies involved in maintaining of the dialogue with the opposition closely monitored activities of the alternative candidates. The information that they were extracting had not aroused serious concern up to a certain moment. Minsk and the EU initially agreed that European institutions would not supply money for the opposition's undertakings. If special services did not obtain information that all were supposed to come to the Square at the order of the "donors", and that Andrey Sannikov and Nikolay Statkevich's headquarters were entertaining the utopian idea of a "government of national confidence", probably Alexander Lukashenko would not have resorted to using brutal force against the rioters.

In the TV and radio addresses to the nation, practically all presidential candidates called on people to come to the Square as soon as the polling stations close. It broke the agreements between Radoslaw Sikorski, Guido Westerwelle and the Western Group¹. People were expected to come together in the Square, stand there for a while, and go home. Nobody was supposed to go to Independence Square. There was no common plan. But the police interference was quite predictable. The only question was how the police would react. Nothing sophisticated was needed to provoke mass riots. It was done not only by provocateurs, but also members of the Belarusian Christian Democracy and the Speak the Truth campaign. Young minds are easy to get overexcited.

¹ The Western Group is just a code name. They are the people who executed the order of the president to work on the "multi-vector policy" in the western direction. In case of a one-vector policy, the group would be referred to accordingly, say "the eastern", "northern", or "southeastern".

The Presidential Administration was doing all right coping with the tasks up to 5 p.m. on December 19, the election day. What happened next actually ruined all efforts and successes achieved in negotiations between the Belarusian government and the West. It was reasonable just to stay put doing nothing, because the force scenario would neutralize all efforts of the Western Group in the Presidential Administration. Like many other persons in history, Alexander Lukashenko used security agencies to disperse the peaceful protest rally on December 19.

During the previous election campaign, Lukashenko enjoyed the support of 65% of voters and officials added 15% making up to the boss. On December 19, he won the election not single-handedly but with the help of the entire vertical, which he constructed. Some objective factors throw discredit upon his leadership capabilities. And the officials are not that confident in their future anymore. In turn, it casts doubts upon the officials' loyalty. President Lukashenko has to either buy them off or intimidate them.

Officials can be paid off by means of privatization, but it would inevitably lead to redistribution of power. Therefore, Lukashenko will most likely approve selective privatization and distribute the targets personally with due gratitude to those who helped him in retaining power. It is certainly not about strategic facilities, but only trade outlets, warehouses, transportation companies and so on. It is even easier to settle accounts with special services: it is enough to raise salaries in their departments.

Policy for outward and in-house use

Over the six months following the election, Lukashenko will take steps to find out terms for reloading the disrupted "dialogue". The West regards a declaration of political prisoners release to be a fundamental issue. But no one — except (even) Lukashenko — knows how it will occur technologically. Any mitigation of sentences or post conviction pardon for political prisoners can be taken as a step forward. It will serve as proof if some court hearings are postponed till May to have more time to explore possibilities of dialogue with the West.

On the other hand, the opportunity to come to terms with Russia once again playing the burned cards of rapprochement with EU and diversification of raw material supplies still exists. The question is whether the Kremlin rulers will let Lukashenko play this game again.

The president believes he does not need domestic opposition, although, objectively speaking, someone should control the 50-percent electoral field. Otherwise, a new opposition will take the lead of discontented voters. On the other hand, creation of a controllable opposition is an answer for the West, but not for the Belarusian political establishment. Officials would agree to formation of a pro-governmental party like Belaya Rus ('White Rus (Ruthenia)', a pro-presidential NGO). This option is however suitable for just a small part of them, those who will occupy leading positions in the party. A parliamentary opposition would be created with the use of the already available oppositional resources. And such opposition is needed not for in-house, but for outward use.

President Lukashenko cannot tolerate sitting at the negotiating table with the people who used to work for him. They said more than once that no quarter would be given once they come to power. Besides, the president is right indeed when speaking about an opportunity for the opposition to have seats in the parliament provided that candidates (or institutions) really command voters' support. In fact, formation of Belaya Rus was suspended among other things because it had no ideology and lacked people's support. None of the existing parties enjoys support. And it is too hard to give these parties the mandates as they always fail to poll at least the 7% required by the law. They will be therefore promoted by local administration that can result in a conflict.

By the way, the incumbent president has a problem with ideology too. Ideology always comes from well-organized ideological groups, i.e. parties. There will be no ideology unless Lukashenko eases control over the political field and provides conditions for unrestricted competition between parties. The ideology department has not employed a single resourceful expert capable to build up ideology, political technologists, or propagandists so far. As a matter of fact, it is a weakness of the president, of which he makes no secret. Neither Alexandr Radkov, nor other so-called governmental ideologists are capable of putting forward an ideology, which would validate the social structure model Lukashenko is seeking to implement. It should not be a bunch of well-formed proclamations and slogans. It must energize.

Today, Alexander Lukashenko's strategy is to carry out tactical tasks to retain power. For this purpose he used the Russian vector at first, then suddenly started "to make advances" to the West. After December 19, he has to keep hold of three directions — Russia, Europe and, in addition, the situation inside the country.

Forecast for 2011

A distinct opposition will hardly emerge in 2011. It can only happen if Lukashenko returns to the dialogue with Europe at least at the level of 2010. He has to repay European loans, for instance with some cosmetic changes in the autocratic model.

Alterations of the election system can be adopted depending on how far Lukashenko will go in the western direction. The European Union is presently stressing a few points: preservation of stability in the state, which it neighbors, respect for human rights, and non-alignment with Russia. Special services will therefore play a smaller role, while the OAC will engage in development of strategic targets, goal setting, making contacts, etc. At the same time, in the first half of the year, special services will be busy creating atmosphere of fear: the political establishment will be scared of conspiracy, and society will be scared of large-scale reprisals and tortures. This work should be done thoroughly, and no one knows when the back-to-normal signal will be given.

Belarus has no other choice but to constantly proclaim its multi-vector commitments. Lukashenko can appear face to face with Russia and promise to sign the single currency agreement again. But it is not an option for him because he would not be able to maintain the existing economic model considering the restrictions established by the documents on the Common Economic Space.

On the whole, the 2011 propaganda campaign priorities have been already outlined. *Firstly*, it is repressive propaganda aimed at intimidation. *Secondly*, it is propaganda of economic liberalization, which has already proved to be faulty due to mutually exclusive decrees and enactments, or pointless documents, such as Directive No.4. If decisions on systemic reforms are made, their implementation is impeded at the level of local authorities, which find it much more convenient to regulate financial processes using the existing model. Any liberties for business mean less money for functionaries. *Thirdly*, there can be counter-propaganda in the Europe-Belarus vector. The situation is far from being favorable here since revolutions in the Middle East frighten the world community and distract attention from the events in Belarus.

FIVE HUNDRED-DOLLAR GOVERNMENT

Inna Romashevskaya

Summary

Last year, the Belarusian political and administrative authorities failed to take strategic decisions that would have enabled them to overcome the negative trends in the national economy and form a foundation for future sustainable development. The Belarusian government had what probably was the last chance to work out and implement efficient reforms, especially economic, based on its own scenario, and it let that chance slip away. While pursuing short-term political goals and lacking common views on the real place and prospects of the country in the regional economy in conditions when energy is imported at prices very close to market rates, the government settled for an imitation of reforms designed to please internal and external stakeholders. The Sidorsky government's agenda therefore focused exclusively on four main objectives: (1) to have Russia resume energy supplies at preferential prices; (2) to demonstrate a successful performance of the social and economic development targets in the final year of the five-year development program; (3) to continue the "liberalization" campaign that allows the government to keep its control of economic processes; (4) to ensure the re-election of the incumbent president for another five-year term.

Tendencies:

- Complete domination of short-term tactical objectives aiming at maintaining the status quo amid hopes that the country will reactivate the economic model based on external subsidies;
- Imitation of long-term planning expressed in an indefinite postponement of strategic decision-making ("pegged" to some specific development scenario);
- "Politicization" of the Belarusian state management system with a view to fulfilling Lukashenko's "sacred" election pledges, which called for a mobilization of the entire state machine.

Energy supply terms, Customs Union and Common Economic Space

The year of the presidential election began and ended with an "oil war" — a head-on confrontation between the Russian and Belarusian governments over the terms of trade in oil and oil products — and demonstrated yet again, this time even more vividly, that the Belarusian state policy depends entirely on the oil transport and processing infrastructure located in its territory.

The situations observed at the start and the end of the year 2010 are almost direct reflections — the government entered both 2010 and 2011 being positive that the matter of preferential supplies of energy resources to the country had been resolved politically and only needed to be formalized as a bilateral interstate agreement in the former case and a contract for oil supplies in the latter. In both instances, this country's hopes for a continuation of the subsidy-based existence of the Belarusian state failed.

In a bid to grab the ever-evading cheap oil, the Belarusian government in 2010 stepped up its efforts to work out and coordinate the documents that constitute the regulatory framework of the two interstate bodies — the Customs Union with Russia and Kazakhstan and the Common Economic Space (CES). The work on the 51 interstate treaties to form the Customs Union and 17 framework agreements of the future CES slowed down and accelerated depending on how realistic the coveted oil preferences promised in exchange for membership seemed to Belarus.

As early as January 4, Belarus was startled by the proposal of a Russian government delegation to apply export duties to crude oil deliveries to Belarus save for the supplies for domestic consumption (agreed at 6.3 million metric tons), and "a representative of the state administration", quoted by *BelTA* state-controlled news service, threatened that Belarus might withdraw from the talks over the Customs Union.¹ Those discrepancies had climaxed by June, when it became clear that the oil duty would not be abolished in the scope of the Customs Union, and the Union deal was almost frustrated. Hardly had the Belarusian government "digested" the consequences of accession to the Customs Union when it engaged in a hasty preparation of the CES deals (once Russia pledged that the oil duties would be lifted as soon as the package of framework CES deals was approved, and Belarus' ratification alone sufficed).

The government therefore assumed very serious international obligations without conducting a thorough analysis of possible ramifications in a bid to enjoy concessional oil delivery terms as soon as possible (Belarus was never granted the expected volume of preferences, though). It was as early as February 2011 that the country's new Prime Minister Mikhail Myasnikovich, who took over

¹ *Russia's new approaches to oil trade with Belarus undermine the foundation of the Customs Union* // [Electronic resource] Mode of access: http://www.belta.by/ru/all_news/main2/i_470302.html.

Sergey Sidorsky, slammed the export promotion program for the next five years, drafted by the Foreign Ministry and Economy Ministry, citing the absence of any specific Customs Union- and CES-related mechanisms to facilitate exports. "I have to reiterate that the government has taken a pause once the package of CES deals was signed, as it believes that from now on everything will move forward automatically... The program has not been fleshed out — there are no initiatives coming from ministries and those who coordinate this work".²

For fairness' sake, the same processes were going on in the Russian "court". Representatives in the Russian Economic Development Ministry believe the political order for the soonest possible development of the CES deals resulted in a failure to factor in many unsettled issues, which will inevitable be brought into the spotlight when the member-states attempt to agree instruments to implement the agreements.³

Some experts believe the governments of the CES member-states will have the most heated debate when discussing the mechanisms to implement the deals on the unification of the legal framework for subsidizing the manufacturing sector and agribusiness in the Common Economic Space for the period to 2017.

Efforts to meet chief targets of the 2006–2010 social and economic development plan

The election year naturally emphasized the importance of meeting the parameters of the five-year social and economic development program adopted at the Third All-Belarusian Assembly back in 2006. Throughout the year, there were quite bitter clashes between the Presidential Administration and the Council of Ministers over drafting and further implementation of the so-called "forecast for social and economic, monetary and fiscal development" adopted for each year of the five-year period based on the indicators of the development program.

² *Myasnikovich insists on including CES opportunities when drafting export expansion strategy* // [Electronic resource] Mode of access: http://www.belta.by/ru/all_news/economics/Mjasnikovich-potreboval-uchityvat-vozmozhnosti-EEP-pri-podgotovke-eksportnoj-strategii_i_541972.html.

³ *Russia–Belarus–Kazakhstan friendship stumbles over documents* // [Electronic resource] Mode of access: <http://www.rbcdaily.ru/2011/03/21/focus/562949979897539>

The overview of the government's work in last year's Yearbook⁴ aptly calls this practice "rudimentary" amid global economic processes, however, for political reasons, it became even more significant in 2010. Anyway, the complexity of the government's endeavor may be attributed not only to the fact that it is mandatory in Belarus to meet targets. The situation was further complicated by the politicization of the very process of setting targets — the president was supposed to report to delegates of the Fourth All-Belarusian People's Assembly on the performance of the previous five-year plan, adopted by the previous Assembly, and the year 2010 had to compensate for the underperformance of the previous year, hit by the global recession, and push the aggregate result of the five-year period (2006 — 2010) to the desired level. On the other hand, the government did not have any room for maneuver when selecting economic instruments to meet the targets.

Back in late 2009, Lukashenko slammed the forecast for 2010 prepared by the government and ordered National Bank of Belarus Governor Pyotr Prokopovich and Deputy Head of the Presidential Administration Leonid Anfimov to revise it. It was at that early stage that the first discrepancies between the Presidential Administration and the Council of Ministers became apparent — the chief state agencies differed as to which instruments should be used to tackle the foreign trade deficit as the country's top priority — either (a) privatization of state property (which was part of Belarus' deal with the IMF) and streamlining of financing of state programs (again, via the IMF-recommended National Development Agency, which is supposed to be set up as part of the deal with the Fund), or (b) import substitution, intensification of exports and attraction of foreign direct investments.

At issue were some of the key parameters, primarily the GDP growth target. Since the economy expanded only 0.4% in 2009, affected by the global downturn, and amid the reviving markets of the main trade partners, which inspired some optimism, the government suggested a 2 to 3% GDP growth target for 2011. However, under the Presidential Administration's political pressure, the government had to offer two scenarios in early 2010: the baseline scenario envisaged a 2 — 3% GDP growth in 2010, whereas the target scenario, a sort of the macroeconomic expansion ceiling for the year,

⁴ Sekhovich V. Government: a Crisis Test // *Belarusian Yearbook 2009*. Minsk. 2010. P. 27 — 34.

included an 11 – 12% growth forecast. The latter, optimistic scenario expectedly turned into the mandatory set of targets, and the 7.6% economic growth reported at the end of the year was severely criticized by the Presidential Administration.

The authorities were supposed to keep in mind their commitments to the IMF (under the recent economic program supported by a Stand-By Arrangement) while debating the endeavor to meet the macroeconomic targets. As hopes of replenishing state budget revenues with receipts from oil product export faded and pressure of the Presidential Administration (which led the crusade for the “sacred” USD 500 monthly wage) got stronger, the IMF started expressing additional concerns in its reviews on Belarus. However, once the IMF-backed program was completed and the authorities officially confirmed that there were no more plans to borrow from the IMF, the opinions of the Fund's review missions and reminders about the commitments were arousing less interest in the government.

The government was thus caught in a dilemma of having to meet politicized (hence too high) economic targets while possessing a very narrow range of instruments limited by the same political rhetoric. The general economic performance was therefore quite poor in 2010, as only five macroeconomic targets were met out of 19. Two of them – the increase in industrial production by 11.3% and growth in import by 20.9% indicate a lack of progress in resolving most crucial economic problems (or rather an aggravation of the problems). Three major five-year indicators were not met – the growth in GDP, farm output, and, worst of all, the reduction in foreign trade deficit.

Anyway, as the country got closer to December 19, the presidential election day (announced in September), the key target of attaining a USD 500 average monthly wage was brought to the foreground. In a situation when increases in wages stemmed neither from hikes in companies' profits nor from an increase in labor productivity, the artificial push of the average wage towards the politically-motivated target became the final straw that broke the back of the Belarusian economy. The fact that the members of the Council of Ministers and the National Bank of Belarus, being fully aware of the consequences of that populist move, not only failed to criticize it, but mobilized the entire state machine to reach the coveted goal using purely administrative instruments, demonstrates the complete “politicization” of the state management system in Belarus.

Economic liberalization

In 2010, the Belarusian government was faced with a challenge of keeping up economic liberalization while holding on to traditional administrative economic levers without allowing privatization of major state-controlled property units.

High hopes for at least some progress in the country's liberalization endeavor were pinned on the so-called Directive No. 4, which was first mentioned by Lukashenko in his April address to the National Assembly and the nation. Experts believe the new economy minister, Nikolay Snopkov, should take the credit for the active promotion of the Directive, which, despite its doubtful status⁵, was supposed to confirm the strategic commitments of the authorities to the economic liberalization policy. The political weight of the Directive, which was developed with a high (by Belarusian standards) degree of engagement of the business community seemed so substantial that some media claimed as early as the summer of 2010 that Mr. Snopkov would likely take over Sergey Sidorsky as the next premier.

However, the draft Directive originally submitted to the Presidential Administration in early June was sent back to the government for revision a few times, which is why the signing of that cornerstone document was chronically postponed (the president finally signed it on December 31). During the second half of the year, the head of state continually criticized both the draft Directive and the hopes of the business community.

The government came under fierce criticism for the lack of a systemic strategy for economic reforms. Watching its most insignificant proposals on any substantial reform take months to have a "go" or "no go" from the Presidential Administration, the government opted for facelift transformations emphasizing "image-making" efforts. However, it relied primarily on its own resources despite the large number of international reputation agencies ready to step into Lord Bell's shoes.

From this point of view, the government's approach to the long-term target of getting into the World Bank's top-30 countries by the overall ease of doing business is indicative. Inspired by the rapid

⁵ *A peculiar way to express political will* // [Electronic resource] Mode of access: <http://www.belmarket.by/ru/103/190/8105/Особый-случай-волеизъявления.html>

progress in the rankings in the previous three years (to position 58 from 115; the WB methodology was later revised and Belarus went down to place 64), the president ordered his government back in 2009 to create a working group led by Deputy Prime Minister Andrey Kobyakov to bring Belarus into the promised top-30.

The action plan seemed solid enough, and Belarus hoped to improve its rating to at least rank 48 in 2010. The government believed the fast progress in the WB's rankings would become a positive signal to foreign investors. However, the session of the Council of Ministers on June 13, 2010, where Mr. Kobyakov reported on the results of the action plan, raised concerns of both independent experts and representatives of the business community. The report presented by the vice-premier indicated that on the one hand, the 27 draft regulatory acts prepared by the working group mostly aimed at improving only the pinpointed indicators assessed by the World Bank. On the other hand, Kobyakov called for state officials to "reach out" to supervised businesses that could be involved in WB's sample interviews conducted to evaluate businesses' perception of the administrative burden.⁶

Belarus moved down 4 notches to position 68 in the 2010 Doing Business rankings (one reason for this was yet another change in the methodology; furthermore, some documents that could have improved the rating were adopted in the second half of the year, that is, after the annual monitoring had been completed). However, independent experts noted that FDI inflows in Belarus remained the same in the previous years⁷ irrespective of the country's Doing Business efforts.

It is also noteworthy that the Presidential Administration brought home to the government the idea that there were no systemic objective obstacles to FDI inflows, and the lack of any significant investment projects was attributed entirely to subjective qualities of state officials⁸.

⁶ *World Bank fails to embrace the scope of reform pursued in Belarus* // [Electronic resource] Mode of access: http://www.belta.by/ru/person/opinions/Andrej-Kobjakov_i_510884.html

⁷ *FDI inflows in Belarus' real sector exhausted* // [Electronic resource] Mode of access: <http://belapan.by/archive/2010/10/07/416120/>

⁸ http://www.belta.by/ru/all_news/president/Administratsija-Prezidenta-Belarusi-predlagaet-postavit-na-budushee-pjatiletie-zadachu-po-udvoeniju-VVP_i_522760.html

Conclusion

The year 2010 revealed the following marked tendencies that will determine the situation with the government of the state in 2011.

- The confrontation between the government and Presidential Administration became more pronounced. It cannot be ruled out that when faced with the need to put in place hasty structural reforms in 2011, the government will start paying less attention to political reasoning coming from the Presidential Administration, which will only be responsible for the ideological content of the reforms — a sort of “public relations” mission;
- The growing involvement in a situation, where to maintain the status quo — the scenario that has dominated for the past decade — is not the real choice of elites, where further postponement of reforms will not lead to conservation of the socio-economic situation in the country, but on the contrary, will guarantee its rapid deterioration.

The political and administrative authorities therefore need to come to an understanding that as things now stand, any strategic decision — the choice of any development pattern — will inevitably affect the manageability of the state and living standards of the population in the medium run.

The window of opportunity for reforming the country from within was shut in late 2010. Any dramatic changes in the way the Belarusian state functions and develops now will be introduced under an unprecedented pressure of external forces and under scenarios that have nothing in common with the Belarusian social and economic development program for the coming five years.

COOPERATION IN ARMS: BUILDING UP NEW UPON OLD

Alexandr Alessin, Andrey Volodkin

Summary

Russia remained Belarus' main partner in the military sector in 2010 despite a whole bunch of controversies between the two. Military-political cooperation was however complicated by the Minsk–Moscow conflict over the situation in Kyrgyzstan and certain reluctance of the first during formation of the Collective Rapid Response Forces (CRRF) of the Collective Security Treaty Organization (CSTO), but the disputes paled into insignificance by the end of the year.

Military cooperation with China and the Near East was quite eventful as usual. Belarus' decision to send its military to contribute to the UN peace-making efforts in Lebanon was something crucially new. As regards interaction with NATO and European states, it was rather limited as always and no considerable progress was made. Certain revitalization of contacts between the Defense Ministries of Belarus and Lithuania is worth attention.

Mapping out of joint plans imply substantial funding for an upgrade of both mutual relations and equipment of the armed forces and the system of troop command and control, i. e. the matters of shared strong interest. The tiny finances that Belarus can allocate to modernize its army make development of rearmament approaches a priority.

Tendencies:

- The economic recession and scarcity of funds compelled to highlight key points and determine particular army modernization targets that slowed down ongoing military projects; efforts are mostly channeled towards upgrading available weaponry rather than its replacement with new equipment;
- Belarusian-Russian relations in the politico-military sector were unprecedentedly energetic yet very unstable with a series of ups and downs in one year connected with political collisions between Minsk and Moscow and ambitions of the Belarusian leaders who wanted to manifest greater independence from Russia in the international arena;
- Military cooperation with Asia and the West basically followed the traditional tendencies of the past few years.

Economic crisis and state arms program

High ranking officers say the Belarusian army is at the stage of implementation of the *State Arms Program* scheduled for the years 2006-2015, which primarily focuses on keeping the available arms and mil-

itary equipment mission-ready¹. Defense Ministry officials believe actions taken under the new program have enhanced operational efficiency of command and control of the air force and air defense and considerably increased serviceability of arms and materiel of air defense missile units and radio-radar troops.

The military also take the credit for re-equipment of the special operations forces with new kinds of special small arms, optical surveillance and targeting devices, special communication facilities and individual protective gears. The land forces were provided with simulation training systems substantially.

However, the actual situation in the Belarusian army is not that cloudless as the military use to report, which first of all concerns up-to-date arms and equipment supplies. Defense Minister of Belarus Yury Zhadobin had to admit once that the government could not afford a lot of things the army would like to have. The Belarusian armed forces experience shortage of modern simulation systems and cannot even use the ones they already have to the fullest extent. The army is still unable to provide the required amounts of vehicles, ammunition, and fuel for combat training.

It may be a conjecture on our part but the scantiness of financial resources probably explains why the Defense Ministry does not plan on purchasing of new arms and military equipment for the land forces in large quantities for the period of up to 2020. Efforts are mostly channeled towards upgrade of the available weaponry engineered during the Soviet-time. As far as we can judge by the available information, emphasis is put on extra protection of land forces' vehicles and their maneuvering characteristics, weapon-control systems, extending of the range, higher accuracy, and fire power of weapons used by motor-rifle and armor-heavy units.²

Meanwhile, the air defense troops have been supplied much more extensively than the land forces in line with the air defense

¹ Optimization of the numerical strength of the armed forces and transition to new organization and establishment were carried out at the previous stage of reorganization. However, a number of experts believe that the current number of the Belarusian military is still excessive. In their opinion, the number is determined not by the strategic practicability but the bargaining with Russia for economic preferences, which have an adverse effect on upgrade of the armed forces. See: Alessin A. *Army: Reorganization Instead Modernization* // *Yearbook Belarus 2008* [Electronic resource] Mode of access: <http://nmnby.eu/pages/6.html>.

² Alessin A. *What do Belarusians Have to Protect the Motherland?* // [Electronic resource] Mode of access: <http://news.open.by/country/47817>.

strengthening program³. These troops form the basis of the joint regional air defense system of Belarus and Russia and they are therefore used as a weighty argument in the never-ending bargaining for privileges and preferences.

The Belarusian army had seen better days in terms of financial provision. The global economic recession hit the entire economy of the country. Since the budgetary performance is far from being perfect, the Defense Ministry had to curtail the defense budget planned for 2010 down to the minimum.

Considering what military officials say now and then, the year 2011 does not give much hope either. The military will keep trying to save as much funds as possible focusing on salary fund payments, satisfaction of accounts payable, transportation and communication charges, food and medical supplies. For this reason, all other plans, including purchase of new weapons and equipment have to be recalibrated at this point (towards reduction of course). President Alexander Lukashenko mentioned this himself in a meeting on financing of the second phase of the *State Arms Program* held on November 22, 2010.

Relations with Russia and the CSTO

Despite the rapprochement with the West observed throughout 2010, Russia remains the major defense partner of Belarus. This cooperation was developing in two formats: bilateral relations and interaction within the Collective Security Treaty Organization (CSTO). Although the organization unites quite a number of CIS states, Russia is its absolute leader when it comes to both politics and defense. Therefore, Belarus' attitude to the CSTO and its initiatives depended directly on the relations between Minsk and Moscow, which were rather complicated last year.

In early 2010, Belarus did not assume the CSTO presidency as it was supposed to do on a rotation basis as far back as June 14, 2009 at the summit of the organization hosted by Moscow. The Belarusian delegation headed by the president declined participation in the heat of the "milk war" against Russia. Nevertheless, Belarus signed the agreement on formation of the CSTO Collective Rapid Response Forces October 15, 2009 but was not in a hurry to ratify it. The House

³ Alessin A. *What do Belarusians Have to Protect the Motherland?* // [Electronic resource] Mode of access: <http://news.open.by/country/47817>.

of Representatives finally did so at the 26 May session. Last year, the CRRF-related topics were a theme song of the whole military-political component of the Belarusian-Russian relations, the second essential ingredient after formation of the Customs Union.

Buildup and functioning of the joint Belarusian-Russian air defense system was another major point of the negotiations. Minsk and Moscow ratified agreements on creation of the regional air defense system almost simultaneously in 2009, but the scheduled actions grounded to a halt actually. For instance, as of May 2010, the parties had not appointed the steering bodies and joint air defense group commander, although they planned it for March⁴.

The situation in Kyrgyzstan and Lukashenko's hostile opinion on CSTO's nonintervention during the April revolution in the country was a bone of contention in political relations between Belarus and Russia in spring 2010. Official Minsk granted political asylum to ousted President of Kyrgyzstan Kurmanbek Bakiyev after Russia refused to shelter the refugee, thus displaying its position on the events. It was more like an explicit act of defiance towards Moscow's policy. The political conflict certainly affected military cooperation. Russia postponed ratification of the signed agreement on development of military-technical cooperation with Belarus. The session of the joint board of the two Defense Ministries was postponed twice in April and May.

Nevertheless, the tension caused by the attitude to the events in Kyrgyzstan was alleviated by the end of May and the parties got back to military-political questions as a matter of routine. As it was mentioned before, Belarus ratified the agreement on formation of the CSTO CRRF on May 26. In June, the defense minister specified the quantitative and qualitative composition of the Belarusian forces to be delegated to the CRRF.⁵ Belarus also adopted an action plan aimed at arrangement of the conflict in Kyrgyzstan worked out by the secretaries of the CSTO Security Councils on June 14. Belarus was the last member state to approve the plan one week after the others.⁶ The package of documents on formation of the CSTO

⁴ Mukhin V. *Unarmed Sky of the Union State* // [Electronic resource] Mode of access: http://www.ng.ru/nvo/2010-05-25/1_sky.html.

⁵ *Belarusian Parliament Completes Ratification on CSTO CRRF* // [Electronic resource] Mode of access: <http://afn.by/news/i/137035>.

⁶ *A. Lukashenko Agrees to CSTO Plan on Resolution of the Conflict in Kyrgyzstan* // [Electronic resource] Mode of access: <http://afn.by/news/i/137439>.

Collective Forces signed by Lukashenko was sent to the organization's secretariat in August.⁷ A tactical training exercise of the Belarusian air force and air defense was held the same month at Ashuluk range in Russia.

Autumn saw another cooldown in Belarusian-Russian military cooperation, apparently resulting from the presidential election campaign in Belarus and Lukashenko's attempt to show both domestic and foreign viewers his independence from Moscow and his intention to build bridges to the West. For instance, the president of Belarus considered it irrelevant to interrupt his working trip to the Brest region to meet with CSTO Secretary General Nikolai Bordyuzha who arrived in Minsk in early September to discuss Belarus' forthcoming presidency in the organization⁸. In October, the mass media informed referring to "a source in Minsk" that Lukashenko allegedly threatened to withdraw Belarus from all post-Soviet integration institutions unless Russian leaders recognize his future election victory.⁹ On top of this, Belarus refused to send its units to the Interaction-2010 exercise of the CSTO CRRF.¹⁰ The joint board of the Belarusian and Russian Defense Ministries did not hold a single session in 2010.¹¹

Some positive trends were observed by the end of the year. A Russian military delegation came to the Belarusian Joint Staff in November to coordinate the schedule of the forthcoming Belarusian-Russian joint operational exercise planned for 2011.¹² On December 8, the State Duma of Russia ratified the agreement on development of

⁷ *A. Lukashenko Signs All Documents on the CRRF* // [Electronic resource] Mode of access: http://naviny.by/rubrics/politic/2009/10/20/ic_news_112_319761/

⁸ *N. Bordyuzha Discusses Belarus' Presidency in CSTO* // [Electronic resource] Mode of access: http://novostnoj.ru/post/pol_113.html.

⁹ *Lukashenko Threatens to Withdraw Belarus from Integration Processes* // [Electronic resource] Mode of access: <http://ru.delfi.lt/abroad/belorussia/lukashenko-prigrozil-vyhodom-iz-vseh-integracionnyh-processov-s-rossiej.d?id=37252981>.

¹⁰ *Belarus Refuses to Send Airborne Troops to CSTO Exercise* // [Electronic resource] Mode of access: <http://rus.ruvr.ru/2010/10/06/24452804.html>.

¹¹ *Belarus and Russia's Defense Ministries Hold Joint Sessions No More* // [Electronic resource] Mode of access: http://naviny.by/rubrics/politic/2010/11/01/ic_news_112_354641/

¹² *Belarus and Russia Coordinate Concept of Joint Military Exercise* // [Electronic resource] Mode of access: http://www.postwismar.de/topic-16470106_23537585.

military-technical cooperation with Belarus¹³, which among other things envisages license-free import and export of weapons, military equipment, and technology at domestic prices¹⁴.

Military cooperation with other states

Contacts with Asian countries remained quite intensive. Belarus has regarded expansion of military exports and training of military personnel in Third World countries one of its priorities. The format of the "Asian vector" became a little wider last year. Alongside the efforts made to upscale bilateral relations, Belarus pursued establishing ties with multilateral politico-military institutions of Asia and obtained partner status in the Shanghai Cooperation Organization in April 2010.

China has been Belarus' leading partner in Asia in all sectors including defense for years. However, the past year was not outstanding for both. The parties mainly concentrated on the joint venture engaged in manufacture of hydro-mechanical transmissions and chassis assembled from Belarusian parts. The venture was established by the Minsk Wheeled Tractor Plant and Belarusian-Chinese Volat-Xingjian enterprise. A Chinese delegation headed by the director general of the Chinese Aerospace Corporation with respect to science and industry (which included representatives of Xingjian) visited Belarus in March 2010 that testifies importance of the project.¹⁵

The Belarusian defense minister went to China in May once again, which has already become a yearly tradition. The two ministries signed an agreement on military cooperation.¹⁶ Belarusian ranking officers conducted negotiations with the Chinese throughout the year. Belarusian media outlets did not provide any valuable information about the results achieved, though.

¹³ *Russian State Duma Ratifies Agreement on Military and Technical Cooperation With Belarus* // [Electronic resource] Mode of access: http://www.naviny.by/rubrics/society/2010/12/08/ic_news_116_356805/

¹⁴ *Privileged Arms Supplies* // [Electronic resource] Mode of access: <http://nmnby.eu/news/express/2659.html>.

¹⁵ *Chinese Business Delegation in Belarus* // [Electronic resource] Mode of access: <http://www.vpk.gov.by/news.php>.

¹⁶ *Assessment of Belarusian Defense Minister's Visit to China* // [Electronic resource] Mode of access: http://www.vsr.mil.by/index/89_1_1.html?publication=89.

Military-technical aspects were assigned the leading role in military cooperation with the Near East. The Belarusian-Syrian commission for military-technical cooperation held the 9th session in April 2010. The joint military-technical cooperation committee of Belarus and the United Arab Emirates convened the first session in October. The UAE agreed to participate in MILEX-2011 international exhibition of arms and military machinery to be arranged in late May 2011 in Minsk.

Military cooperation with Qatar was somewhat an exception. Alongside the routine questions, the two countries conducted joint maneuvers in July 2010 at the range of the 5th detached special operations brigade of Belarus observed by Qatari Armed Forces Chief of Staff Hamad Bin Ali Al Attiyah, who was visiting Minsk at that time to meet with his Belarusian counterpart. By all appearances, the joint exercise was a reciprocal gesture after the Belarusian military took part in Ferocious Falcon general exercise in October 2008 and March 2010 in Qatar.¹⁷

Belarus's intention to send a contingent outside the country on a peace-making mission accords with the government's policy in the Near East. In line with the law of 2003¹⁸, Belarusian citizens can only perform nonmilitary tasks in UN and OSCE peace-making operations. Nonetheless, the deputy chief of Joint Staff informed in May 2010 that Belarus was going to send troopers to Lebanon on an UN-led peace-making mission. On August 2, the president signed Decree No. 400 on "deployment of servicemen of the armed forces of Belarus in the Republic of Lebanon for participation in activities aimed at maintenance of international peace and security". Although the decree only concerned nine people¹⁹, i. e. even fewer than those delegated by the Baltic States, the very fact that the government crossed out the fundamental principle of nonparticipation in combat

¹⁷ *Belarus and Qatar Conduct Joint Special Tactical Military Exercise* // [Electronic resource] Mode of access: <http://5obr-spn.ru/news/2010-07-29-170>.

¹⁸ Law of the Republic of Belarus № 254-3 of 29.11.2003 on the procedure of delegation of military servicemen, commanders and privates of the law enforcement agencies, financial investigation institutions of the State Control Committee of the Republic of Belarus, emergency situations bodies and units, workers of prosecutor offices, and civilian personnel outside the Republic of Belarus for participation in activities aimed at maintenance of international peace and security

¹⁹ Comments to Decree № 400 of August 2, 2010 // [Electronic resource] Mode of access: <http://www.president.gov.by/press94096.html>.

actions outside the country was staggering. It means a lot that Belarus chose not a local conflict in the CIS or the Balkan Peninsula, but the Near East.

As regards collaboration with the North Atlantic Treaty Organization, the year witnessed no breakthroughs. Contacts were basically maintained under the NATO Partnership for Peace program (actions specified by the individual Belarus-NATO partnership program 2010 – 2011) and within the framework of international arms control agreements. According to the program, a delegation of the Belarusian Defense Ministry headed by Chief of Joint Staff Tikhonovsky participated in a session of the Euro-Atlantic Partnership Military Committee in January 2010. A delegation of the NATO Headquarters visited Minsk in March to discuss Belarus' participation in the Partnership for Peace Planning and Review Process and to evaluate progress in implementation of the objectives set for 2008 and 2010.²⁰

As part of the second component, in August-September 2010, Belarus arranged a training course at the Defense Ministry's National Agency for Verification and Inspections intended for officers of verification missions of the OSCE and NATO who came to share expertise and brush up their knowledge of the Russian language. A French military delegation visited Minsk in September to address arms control matters.

Among the NATO members, military cooperation with Lithuania was the most extensive. The Foreign Ministry of Lithuania said the country was interested in cooperation with Belarus in the field of transportation to load the Klaipeda port used for NATO supplies to Afghanistan²¹ in line with the Belarus-NATO agreement on transit of military cargoes. Defense Minister of Belarus Zhadobin was invited to Vilnius in autumn where the parties signed a defense agreement and a cooperation plan for 2011.²² Considering that interaction between the two defense agencies was actually at a zero level in late 2009, as Lithuanian Defense Minister Rasa Juknevičienė said²³, the countries made a breakthrough in 2010.

²⁰ *Delegation of NATO Headquarters Visit Belarus* // [Electronic resource] Mode of access: http://www.belta.by/ru/all_news/politics/i_344973.html.

²¹ *Latvia to Share NATO Cargoes with Lithuania and Estonia* // [Electronic resource] Mode of access: <http://ru.delfi.lt/news/politics/latviya-podelitsya-gruzami-nato-s-litvoj-i-estonij.d?id=28327481>.

²² *Minister of Defense Visits Lithuania* // [Electronic resource] Mode of access: <http://www.vsr.mil.by/index?publication=204>.

²³ *Lithuanian Defense Minister Rasa Juknevičienė: Am I an enemy to Belarus?* // News tut.by. Politics. 23.12.2009: <http://news.tut.by/155786.html>.

Military contacts with another neighboring NATO member, Poland, are hardly worth noting. Chief of Joint Staff Tikhonovsky went to Warsaw twice and nothing is known about any agreements. The land and air force commanders of Belarus and Poland held two working meetings in the second half of the year. According to the available information, they focused on airspace use control and reporting of flights in the common border area.²⁴

There were some sporadic meetings between Defense Ministry officers with military delegations of Germany, Italy, and France.

Conclusion

Some actions aimed at upgrade of the armed forces of Belarus specified by the state program were taken in the previous few years owing to the appreciable economic growth in the pre-crisis period. The global recession slowed the process down. Moreover, a whole series of actions of paramount importance are likely to be frustrated.

In spite of all political contradictions, Russia remains Belarus' major defense partner in the bilateral format and in the CSTO, which is troublesome for the most part. Over the past year, the bilateral relations in the military sector passed through several stages from stagnation early in the year caused by dragged out ratification of CSTO CRRF protocols and implementation of the joint air defense system arrangements to the spring conflict over the situation in Kyrgyzstan. Then came reconciliation (in early May and August) together with the Belarusian military exercise at the Russian range and support for Russian initiatives addressed to the CSTO. Then it all cooled down again in September-October most likely due to the international anxiety about the future presidential election in Belarus. And finally the temperature went up again at the year end with scheduling of the joint exercise planned for 2011 and ratification of the agreement on development of Belarusian-Russian military-technical cooperation.

It is safe to assume that the military cooperation line will still go up and down in future. In fact, issues remain unresolved. They are just put on the back burner in the situation aggravated by the notorious presidential election in Belarus. At the same time, both countries are motivated to maintain cooperation for objective reasons. Belarus

²⁴ *Belarusian and Polish Military Address Regional Security Matters* // [Electronic resource] Mode of access: <http://www.interfax.by/news/belarus/75339>.

depends on Russian military supplies needed to re-equip the army, and Russia depends on supplies of Belarusian component parts for some enterprises of the military-industrial complex. Also, the territory of Belarus is used for strategic purposes in case of a confrontation with the West.

Given the recent developments in what concerns attitude of the West towards the 19 December events in Belarus, cooperation with NATO will most probably stall for a while. This does not seem to be a huge problem for Belarus, as, in fact, interaction with Europe was limited anyway and largely does not affect the defense potential of Belarus or its neighbors. That is why it is much less dependent on political fluctuations, than on future military relations with Russia.

PARLIAMENT: AN ORNAMENTAL ELEMENT OF "LAW-MAKING"

Andrey Kazakevich

Summary

During 2010, some prominent staff changes were made in the parliament, though initiated by executive bodies rather than by the representative organ itself. In 2010, the parliament had two regular sessions and one extraordinary one. Eventually, more than 180 normative acts were adopted in first and second readings. No bill was rejected by the House of Representatives.

The parliament has no direct influence on Belarus' foreign policy; it does not take strategic decisions in this sphere. Nevertheless, the parliament and the deputies do represent Belarus in the international arena to some extent. In 2010, parliamentary procedures were used in foreign-policy games (recognition of Abkhazia and South Ossetia is most typical in this aspect).

Tendencies:

- The parliament is losing its political functions;
- The number of deputies representing the national level has dropped significantly, while the amount of local administrations' functionaries in the parliament is growing;
- Tendencies in the legislation are stable: the parliament considers and amends normative acts passed down by the government or the President.

There is a significant discrepancy between the *de jure* and *de facto* political roles of the Belarusian parliament. There is truly a power imbalance written into the Constitution and normative acts, but real parliamentary activity is far from using even these constitutional powers.

It being difficult to define deputies' functions and powers, we cannot easily assess their decisions, initiatives, public statements and other forms of political and civil activities. There are even more difficulties with the status and role of the upper chamber – the Council of the Republic. It can be regarded as a functionless body. Its existence is stipulated by the Constitution but its role in the state system is formal – it is a forum for informal communication of the ruling elite. That is why we will analyze mainly the lower chamber.

Parliament's main features

According to the majority of analysts and researchers, the parliament is steadily losing its political functions. In recent years the number of deputies representing the national level has dropped from 24% in HR I¹ to 10% in HR IV. While the number of administration functionaries from the local level is growing.² The age structure of the deputy corps is changing drastically. Over the past 20 years the number of deputies aged 31 – 40 and 41 – 50 dropped respectively from 19.1 to 4.55% and from 47.3 to 25.5%. At the same time, the number of pre-retirement deputies (51 – 60) has risen significantly: it doubled since 2000 – from 27.3 to 61.8%. Young people below 31 have a stable representation – 1 deputy (0.91%). The same is true about people over 60 (5.45 – 6.36%) (Table 1).³

Table 1

Age structure of the House of Representatives dynamics, 2000 – 2010 Age in years	HR II 2000 – 2004	HR III 2004 – 2008	HR IV 2008 up to now
Below 31	0.91	0.91	0.91
31 – 40	19.10	3.64	4.55
41 – 50	47.30	40.91	25.50
51 – 60	27.30	49.09	61.80
Over 60	5.45	5.45	6.36

Therefore, the deputy corps has grown older with pre-retirement deputies dominating. The tables show that a deputy mandate is a kind of honorable retirement for regional ruling elites, while its role in the vertical political mobility is gradually reducing (see Table 1). This tendency reflects the logics of parliament formation rather than the

¹ Here and further the House of Representatives of the 1st convocation is abbreviated as HR I, of the 2nd – HR II, etc.

² See the results of the respective study: *Belarusian Elite. Structure and Tendencies* // Research results. 2010. № 1. p. 15 – 16; <http://palityka.org/wp-content/uploads/2010/04/elites.pdf>.

³ Here and further see: Kazakevich A. Belarusian parliament during independence: evolution of deputy corps, 1990 – 2010 // *Political sphere*. № 15(2). P. 44 – 71.

⁴ Age is given at the election period.

fact that deputies are getting older. The succession between HR II and HR IV is only 3 deputies.

The level of political self-organization and initiative of deputies is also reducing: there are fewer groups, associations and party structures. Party fractions disappeared from the Belarusian parliament after the Supreme Soviet of XIIIth convocation was dismissed (1996); deputy groups that could be called "political" stopped functioning after 2004. Moreover, even non-political groups, such as "Bulgaria's Friends", "Promotion of Economic Development" in HR II, have disappeared (Table 2).

Table 2. Deputy groups and associations in the House of Representatives, 1996–2010

	HR I 1996 – 2000	HR II 2000 – 2004	HR III 2004 – 2008	HR IV 2008 up to now
Deputy groups (fractions), total number	0	8	0	0
Party fractions (groups)	0	0	0	0
Other political groups	0	3 – 5	0	0
Non-political deputy groups	0	3 – 5	0	0
Deputies engaged in political groups, %	0	~30%	0	0
Deputies engaged in deputy groups, %	0	~90%	0	0

The same is true for party structures. The issue of establishing "the party of the regime" or a significant political conglomeration of pro-regime political organizations has been raised more than once. Nevertheless, since the moment when the authoritarian regime took shape, the role, representation and number of political parties as well as the number of political deputies in the parliament has dropped (Table 3).

At present, the Belarusian parliament is not an influential political institution. Its membership shows that it is gradually transforming into an organ of honorable retirement for regional elites, providing some assistance in legislation and help with public complaints, as well as representing Belarus in the international arena.

The deputies show a very low level of political activity and self-organization. Their role in voicing and representing public interests is small, though there is some possibility of lobbying

interests of business structures, some regional or district groups. As a result, parties have a marginal character, since 2004 deputy groups have not been established. Moreover, a deputy mandate is not a step towards higher state positions (examples are very rare). The role of the parliament as a tool of vertical political mobility is constantly reducing. Therefore, when evaluating the parliamentary activities we should focus on two directions: legislation and foreign policy.

Table 3. Parties in the House of Representatives, 1996–2010

	HR I 1996 – 2000	HR II 2000 – 2004	HR III 2004 – 2008	HR IV 2008 – present
Number of parties	9	6	3	2
Deputies from parties, %	42	13.6	10.9	6.4
Communist Party of Belarus, %	20	5.5	7.3	5.5
Agrarian Party, %	9.1	3.6	2.7	0.9
Other parties, %	12.9	4.5	0.9	0

Staff changes in 2010

During 2010, some prominent staff changes were made in the parliament, though initiated by executive bodies rather than by the activity of the representative organ itself. On May 20, 2010, Boris Batura, Chairperson of the Council of the Republic, was appointed Chairperson of Minsk regional executive council, substituting Leonid Krupets. One person is not allowed to occupy both positions, so Anatoly Rubinov became a new Chairperson of the Council of the Republic. Boris Batura, just as two previous chairpersons of executive councils appointed in 2010, became an ordinary member of the upper chamber. New regional executives, Semyon Shapiro (Hrodna region) and Nikolay Ladutsko (Minsk), were appointed members of the Council of the Republic within the presidential quota.

Mikhail Rusy, chairperson of the standing committee on agricultural issues, was appointed Minister of Agriculture instead of Semyon Shapiro, which is a quite rare thing. Earlier, in 2003–2004, Mr. Rusy was already performing these duties.

Legislation

Tendencies in the legislation are stable: the parliament considers and amends normative acts passed down by the government or the President. Deputies do have powers to significantly amend normative acts, but only when there is no conflict with the fundamental interests of the executive power.

For example, in 2010 the Council of the Republic of the 4th convocation voted down a bill, which is rather untypical if not extraordinary. The bill concerned amendments to the law on children's rights and interests. The reason for rejection was a collision of normative acts. The bill could not be called fundamental or important. Deputies usually show no initiative in elaborating new laws. Moreover, such initiatives require total endorsement with the executive bodies.

In 2010, the parliament had two regular sessions and one extraordinary one. Eventually, more than 180 normative acts were adopted in first and second readings. No bill was rejected by the House of Representatives. Among them, the majority of acts were submitted by the government, the rest — by the President, and only one bill was initiated by the deputies of the House of Representatives themselves. These figures are typical for the Belarusian parliament: in 2004 — 2009 deputies initiated from 0 to 3.5% of the bills. Just as earlier, the parliament took into consideration all decrees issued by the President.

In September 2010, according to the Constitution, the parliament appointed the date for the main political event of the year — the presidential election — for December 19.

Foreign-policy activities

The parliament has no direct influence on Belarus' external policy; it does not take strategic decisions in this sphere. Nevertheless, both the parliament and the deputy corps are involved in representing Belarus in the international arena. This representation has several established forms. *Firstly*, it is work in inter-parliamentary organizations. *Secondly*, it is voicing and promoting the official position during formal and informal meetings, visits, conferences, sessions. The deputies generally voice the official position of the Belarusian authorities and comment events, etc. They usually have no powers for conducting real negotiations and making decisions. *Thirdly*, the deputies promote economic cooperation between countries. And, finally, they provide the executive bodies with tools to use parliamentary pro-

cedures for foreign-policy games. The situation with recognizing Abkhazia and South Ossetia is a vivid example of this.

Western vector. According to the general policy towards improving relations with the West, inter-parliamentary cooperation and participation in respective regional and international organizations were an important activity in 2010. The Belarusian delegation took part in the Parliamentary Assembly of the Eastern partnership (*Euronest*).

The Assembly includes 120 deputies — 60 EP deputies and 10 deputies of national parliaments from each member state. Since the very beginning the EU has questioned the status of the House of Representatives because of non-democratic elections of 2008. On their part, Belarusian parliamentarians insisted on participation on equal terms.

During 2010, alternative formulas were suggested: 5 + 5 (5 deputies of the Belarusian parliament + 5 representatives of the civil society), 0 + 10 (only representatives of civil society having no suffrage but with the right to speak at meetings). The Belarusian side is peremptorily against any participation of opposition or NGO members in the Assembly. Minsk officials managed to find support among the parliaments of all five Eastern partnership member states. The issue of Belarusian representation did not allow conducting the first *Euronest* meeting in 2010, which was postponed. In early 2011, European organizations showed preference for a 0 + 0 formula — no delegation from Belarus at all.

In 2010, the Belarusian parliament attempted establishing contacts with the Parliamentary Assembly of the Council of Europe (PACE). After extraordinary hearings in April 2010, PACE passed a resolution condemning the death penalty, oppression of mass media, public organizations and national minorities in Belarus. Belarusian parliamentarians — for example, Sergey Maskevich, head of the committee for international relations and relations with the CIS — called it non-constructive and inconsistent.

In August, Sinikka Hurskainen, PACE reporter on Belarus, visited Minsk to meet with Belarusian parliamentarians. During the visit hopes were expressed for further cooperation and Belarus gradually joining the PACE. But it is still unclear, how the fundamental issue of the death penalty will be resolved: abolition or, at least, a moratorium. According to the rules governing political life in Belarus, this issue is not within the competence of the Belarusian parliament.

In 2010, Belarusian deputies commented Belarusian-European relations both in national and foreign media more than once. The

majority of them included hopes for broader cooperation, complaints that Europeans are badly informed about the situation in Belarus, calls to respect Belarusian domestic political traditions, etc. For example, these issues were raised by Sergey Maskevich, his deputies Igor Karpenko and Viktor Guminsky; by Alexandr Yushkevich, head of the committee for human rights, nationality relations and mass media, his deputy Anatoly Glaz and others.

Russian-Belarusian relations. In 2010, relations between Belarus and Russia were rather tense, which influenced the work of the parliament. Parliamentary procedures were used in foreign-policy games. Recognition of Abkhazia and South Ossetia is the most vivid example of this situation. First raised in 2008, this question was handed over for consideration in the parliament to stall the procedure. It was announced that the parliament would take the final decision. The issue was not put before parliament and was sent back to the President in November 2010.

Similar was the way of stalling the adoption of the Customs Code of the Customs Union of Belarus, Kazakhstan and Russia. The issue was postponed several times depending on the negotiations between the Russian and Belarusian presidents. The Code was passed on June 30, 2010, at a closed sitting on the last session day. In June 2010, the parliament ratified the agreement on the Collective Rapid Reaction Force of the Collective Security Treaty Organization (CSTO).

In 2010, Belarusian parliamentarians also came out with statements against the smear campaign launched in Russian media against the Belarusian president. They made denouncing statements in Belarusian media, backing the country's leader. They urged that Russia show more respect for national interests of Belarus, take into account the long history and strategic importance of bilateral relations, and called for further cooperation.

These statements were made by both heads of committees and rank-and-file deputies (Igor Karpenko; Vladimir Zdanovich, chairperson of the committee on education, culture, science, scientific and technical progress; Sergey Semashko, chairperson of the committee on industry). In October, the House of Representatives issued a statement on Belarusian-Russian relations urging the Russian side to take a more constructive position. But these statements cannot be called influential in this situation.

Other countries. In 2010, the Belarusian parliament maintained some bilateral contacts. For example, Belarusian deputies paid official visits to Syria, Israel, and Armenia. In May, they also visited France.

Besides, the House of Representatives ratified an agreement on the state border with Ukraine and agreements on border traffic with Poland and Lithuania.

Meetings with parliamentarians, authorities and businessmen were aimed at promoting political contacts and intensifying economic relations. Assessing their effectiveness is not possible.

Conclusion

In 2010, the activities of the Belarusian parliament followed the tendency of the previous years. It remains an institution with auxiliary functions for executive bodies, optimizing legislation and voicing or advocating the officials' opinion in the international arena.

LOCAL AUTHORITIES: SELF-GOVERNMENT SACRIFICED TO LIBERALIZATION

Zmicer Kuhley

Summary

Local authorities in 2010 were working within the framework of two election campaigns. One of them, the April election to local councils, was directly related to the local representative power branch. The other, presidential elections, was of decisive character for the whole structure of the Belarusian regime in the short- and medium-term perspective. Both election campaigns tested Belarus' political system for stability. Local authorities are a constituent part of the "presidential vertical", with the executive branch dominating the representative one. They are in no way a separate self-government institution representing interests of the local community and protecting the latter from excessive interference from the state.

The new version of the law *On local government and self-government* that came into force on January 4, 2010 introduced no changes into the existing practice. Local authorities went on following the rules that had formed over the last 16 years. There is a kind of silent agreement between the president and local authorities: the incumbent country leader guarantees status quo and powers to local and regional elites; whereas Alexander Lukashenko's further terms of office depend on local authorities. At the same time, controversial tendencies determined the development of local authorities: on the one hand, the subjective factors of the Belarusian authoritarian regime, on the other hand, the objective urge for economic modernization of the country.

Tendencies:

- On the one hand, the local elections in 2010 further isolated local authorities from the public and narrowed the competitive sphere for recruiting candidates for the ruling elite; on the other hand, up-to-date information and communication technologies (ICT) being introduced on all state levels, including local and regional, are contributing to more open and transparent work of local authorities;
- Local elections highlighted interest discrepancies between local elites and the incumbent country leader;
- Local authorities keep losing powers in business sphere regulation because of attempts to liberalize entrepreneurial activities;
- The consolidated budget of the Republic of Belarus is becoming more centralized; the ratio of non-repayable receipts from the national budget to local ones is growing;
- Local executive bodies expand their powers for controlling local communities.

Maintaining tradition, steering clear of innovation

The two electoral campaigns of 2010 directed the state policy in local government and self-government to following the principle of "maintaining tradition, steering clear of innovation". In 2010, Lukashenko's 2006 thesis voiced after the third presidential election was still topical: "the power vertical must be kept firm from top to bottom; no practicing democracy".

Since January 4, 2010 local authorities have been following the new version of the law *On local government and self-government in the Republic of Belarus*. The law introduced no decisive changes into the Belarusian system of local government and self-government. It simply redistributed powers between local councils of deputies and regional executive bodies that used to be duplicated at regional and district levels.

The law also defines the legal status of and the procedure for establishing territorial public self-government bodies. We should note that before the presidential campaign of 2010 the local ideological apparatus grew more active. It focused on establishing territorial public self-government bodies that were to cooperate with local authorities to solve local problems by joined efforts of citizens and executive bodies. Nevertheless, the initiative became purely formal, turning into a propaganda tool.

Article 59 of the law *On local government and self-government* now contains a note that local councils can initiate legal procedures to protect their infringed or disputed rights and interests to execute their powers. In 2010, not a single case was registered. This legal norm enables councils to protect their rights against executive and national power bodies. Nevertheless, in the over-centralized Belarusian state system local self-government is absolutely dependent and answerable to the "presidential vertical". No lawsuits can be expected between these subjects. The Belarusian political elite is haunted by the idea expressed by the state leader that local councils are no bosses on their territories, they simply share responsibility with local executive bodies.

The new version of the law *On local government and self-government* empowered Belarusian authorities to establish local councils associations to lobby their interests at the European level. The latter have a right for international cooperation. It is worth mentioning that the European Union pays much attention to regions and local community development, including border areas of neighboring states, and allocates significant sums from its budget.

Projects involving European partners and local authorities, including Euroregions, are already functioning in Belarus. Nevertheless, Belarusian local authorities do not cooperate with European municipalities to their fullest extent, unlike other EU partners. Immediately after the local elections, Belarusian authorities launched activities to establish the Belarusian Association of local self-government bodies, which was not completed until the end of 2010.

Local elections 2010: controversies between the centre and local elites

After the local elections in April 2010, local and regional elites kept isolating themselves from the public: few oppositional parties' representatives made it to local councils of deputies.

Despite that local councils' deputies have limited powers, they can partially control governing bodies, e. g. on issues of financial flows and budgetary distributions at the local level. We should note that local functionaries got used to controlling the way in which local representative bodies are formed. They are used to being unaccountable to local communities, whose interests they are actually to represent. In reality, local political elites are accountable directly to the president in implementing national policy on the entrusted territories: to ensure good social and economic performance and stability in the region, including the required number of Alexander Lukashenko's supporters among the local population. The president, in his turn, secures that there is a favorable recruitment policy and no unwanted business competition at the local level. The situation is mutually advantageous: the incumbent state leader does not wish his rivals to strengthen their positions in local governing bodies, whereas local political elites do not allow "aliens" into their system, so that their interests are secured.

Nevertheless, in 2010 relations between the president and local authorities faced new challenges. The number of opposition representatives in local self-government bodies long ago fell below the critical level to present any threat for the president. In 2010 Belarusian officials kept working towards improving relations with Western partners, which required making some concessions. Several dozen oppositional deputies of local councils would have presented no danger for the present Belarusian regime but would have evoked positive reaction from foreign partners, which could have been translated into financial and economic preferences from the West.

Despite that the Central Election Commission and top authorities' strongly wished to show foreign observers some progress in the election procedure, local and regional functionaries would follow the 16-year old campaign scenario and left local councils without oppositional deputies. Nevertheless, the inaction and unwillingness to accept the new political reality had little influence on Belarus-West relations, as the latter placed all their hopes in the presidential campaign.

Local authorities were traditionally criticized by the country's administration, especially before the presidential election. Belarusian propagandists tried to convince the public that local governing bodies are to blame for the drawbacks and failures in the social and economic sphere, while the top administration keeps working effectively and controlling all government levels, being also capable of solving problems in the competence of local authorities. This way of presenting the work of local authorities, besides being purely propagandistic, further convinced the public that highly centralized public administration is necessary in the state.

Liberalization causing centralization

In 2010, the consolidated national budget became even more centralized: local budgets lost the retail sales tax and local duty on parking users. In 2010 local budgets totaled BYR 18.7 trillion, with transfers from the national to regional and Minsk budgets reaching BYR 7.3 trillion, or 39% of all local budgets expenditures. Local budgetary receipts decreased because of the new methods to calculate land tax by cadastral value of land lots. At the same time, in the first quarter of 2010 local councils of deputies were not empowered to apply multiplying factors to the real-estate tax rate. What is more, according to the *National comprehensive program for regional and small and medium urban settlements development in 2007–2010*, local councils of deputies continued granting privileges or delays for enterprises in paying debts, local taxes and duties, contributing to smaller local budgetary receipts. We should note that for the last few years local and regional authorities have been losing their financial independence due to reduction of local taxes and duties to their minimum.

Local authorities play an important role in the Belarusian licensing system in business. Decree № 450 *On licensing certain activities* as of September 1, 2010 stripped them of a significant number of powers through abolition of licenses to perform 16 entrepreneurial activities.

This decree eliminated local barriers for small and medium business. The most important was abolition of licenses for retail sales that used to make up 156,000 of a total 240,000 licenses. Independent experts and businesspersons regarded local authorities as a hindrance for small and medium business development. At the same time, decree № 581 *On purchase of real estate for local needs* as of November 9, 2010 empowered local authorities with extra mechanisms to influence the real estate market and, respectively, small and medium business development on the entrusted territories.

It should be mentioned that liberalization of entrepreneurial activity is carried out at the cost of local authorities: their powers and financial independence is reduced. The tax burden on business is being reduced at the cost of abolishing local taxes and duties; the business climate is being improved by abolishing licenses that used to be issued by local administrations and executive councils.

Nevertheless, positive changes of economy liberalization were partially impaired in early 2010: decree № 518 *On certain issues of rentals and non-repayable use of property* enables local authorities and state enterprises to apply multiplying or reduction factors when providing rentals. Local functionaries took it as a cart blanche to apply the highest multiplying factor and increase budgetary receipts. Eventually, the president intervened and granted the State Control Committee powers to audit local authorities and state enterprises on legal grounds for raising rentals.

Local executive and administrative bodies were empowered to directly intervene in activities of condominiums and influence the procedure of electing the chairpersons of these non-profit organizations. In late 2010 the president signed a decree *On certain issues of condominiums and estate developers* that expands local functionaries' powers on non-profit organizations. The decree expands control functions of local executive councils to condominiums and estate developing organizations. Local executives now have a right to endorse candidates for chairperson of the board, to nominate candidates, to initiate early dismissal, etc.

The country's administration is attempting to optimize activities and increase efficiency of state bodies. In 2010, a pilot automated information system (AIS) "Local councils of deputies" was launched in Bieladubrauski (Kasciukovicki district) and Janauski (Krasnapolski district) village councils. AISs promote effective and open work of local authorities. AISs save time, provide access to legal information, including lists of administrative procedures. They are expected to

promote small and medium business in regions. In 2011, AISs are to be introduced in all local councils of deputies of Belarus.

On December 11, 2009 Alexander Lukashenko signed decree № 622 *On improvement of land regulations and state control over use and protection of land*, which transfers land management functions to local authorities. Land management and geodetic functions of the State Property Committee are transferred to local executive councils with maintenance of the total number of civil servants.

Conclusion

Local government and self-government in Belarus is “built-in” into the “presidential power vertical”. Being its inseparable element, it continues to perform its function of maintaining stability of the Belarusian regime. The country's top leader is afraid to lose power if the present state system, having been developed over the last 16 years, is reformed, which hinders reforms of local authorities, despite that the situation is calling for change.

State authorities are taking certain actions to improve local authorities' work, especially in business, but this produces controversial tendencies. The Belarusian authorities are liberalizing economic activities at the cost of local authorities: their financial dependence is growing, the consolidated national budget is further centralized as local budgetary receipts are reducing. On the other hand, reduced local budgets demand more non-repayable receipts from the national budget, causing parasitical attitudes in and demotivating local authorities to create a good business environment on the entrusted territories. Also, local functionaries are afraid to lose their non-official rents or positions and oppose liberalization of entrepreneurial activities at the cost of reducing bureaucratic establishment's powers in business sphere regulation.

ELECTION

PRESIDENTIAL CAMPAIGN

Vladimir Rovdo

Summary

The major election campaign of 2010 did not become a “stunning election” when the authorities, to their own surprise, surrender the reins of government to another political force or have to make essential concessions to the opposition. There was such election in 1994 and it was called “a reactionary revolt of the masses” against the absolute power of the political establishment. The 1994 election campaign was however conducted in strict compliance with the fundamentals of competitive and fair elections, which the Vyacheslav Kebich’s government adhered to. All presidential campaigns that followed were actually Alexander Lukashenko’s self-appointment for new terms accompanied by massive violations of the election laws reported by all the OSCE’s monitoring groups. The 2010 “election” saw the exactly same scenario. It however shook Alexander Lukashenko’s position since the outcome of the election and brutal disruption of the protest rally foiled the two-year-long efforts to bring about a rapprochement between the European Union and Belarus and to diminish dependence on Russia. The election and subsequent reprisals against political activists weakened the opposition, which was splintered even without that.

Tendencies:

- Patchy amendments to the election laws did not change the election process essentially; the election machine built into the administrative command system still has enough capacity to secure a desired election outcome whatever contenders do or whoever voters really ballot for;
- The dropping rating of the head of state compelled resorting to risky populist economic shifts, but even the unsecured wage hike did not result in hard-core loyalty, first of all in Minsk;
- When the time came to choose the geopolitical orientation, President Lukashenko preferred the Russian vector over the European one, as it did not require radical economic and political transformations unsafe for the personal rule regime in Belarus;
- The opposition failed to consolidate, which frustrated the regime replacement strategy pursued by most candidates, but helped to hold the mass protest rally on December 19 and prevent recognition of Lukashenko’s self-appointment as an election win by the West.

Overall results

According to the Central Election Commission, Lukashenko polled 79.6%; Andrey Sannikov got 2.43%; Yaroslav Romanchuk 1.98%; Gry-

gory Kostusev 1.97%; Vladimir Neklyaeu 1.78%; Viktor Tereshchenko 1.19%; Vitaly Rymashevsky 1.09%; Nikolay Statkevich 1.05%; Aleksandr Mikhalevich 1.02%, and Dmitry Uss 0.39%. 6.4% voted against all.¹ According to the public opinion surveys conducted by Belarusian sociologists from the Independent Institute of Socio-Economic and Political Studies (IISEPS), 51.1% of respondents voted for Lukashenko (39.9% in Minsk and 62.3% in rural districts); Neklyaeu polled 8.3%; Sannikov 6.1%; Rymashevsky 3.7%; Romanchuk 3.2%; Mikhalevich 2.7%; Statkevich 1.7%; Kostusev 1.6%; Tereshchenko 0.6% and Uss 0.5% (i. e. 28.4% for all contenders together). 5.1% voted against all; 3.8% refused to answer. Counting the virtual votes of those who refused to answer, the figures made up 58.0%, 9.7%, 7.0%, 4.2%, 3.7%, 3.0%, 1.9%, 1.8%, 0.7%, and 0.6% respectively (32.6% for all contenders). We remind that on March 19, 2006, Lukashenko won 63.1% of the votes (of the total number of those who came to the polling stations), and three opponents of his (including Sergey Gaidukevich) had 30.3%. It means that Lukashenko won the presidential election again, which all previous pre-election opinion surveys IISEPS predicted, and redistribution of nearly 1,350,000 of votes for the benefit of the incumbent president and mass arrests were unnecessary actually.²

The past campaign was notoriously distinctive not so much due to the redistribution of votes for Lukashenko's benefit, as due to the unprecedentedly brutal crackdown on the most active part of the Belarusian opposition, which was struggling for power in a peaceful manner. Those actions of the authorities were not provoked by the opponents of the regime and can hardly be explained from a logical point of view.

More than 50 people face criminal charges in the case on organization of mass unrest. Among them are seven former presidential candidates Andrey Sannikov (currently in detention), Nikolay Statkevich (in detention), Vladimir Neklyaeu (under house arrest), Vitaly Rymashevsky (released on his own recognizance), Ales Mikhalevich (released on his own recognizance), Grigory Kostusev (under suspicion, released on his own recognizance), and Dmitry Uss (under suspicion, released on his own recognizance).

¹ See Glod U. *SEC dismisses Kostusev's complaint and recognized the election returns* // [Electronic resource] Mode of access: <http://www.svaboda.org/content/article/2258009.html>.

² Press Release "Voice of the people for the people". Topmost findings of the December 2010 opinion poll by IISEPS; See <http://www.iiseps.org>.

All sorts of government agencies in the capital and in provinces worked hard so that Lukashenko could stay in office for the fourth term. The opposition made a lot of mistakes and entered the campaign as eight uncoordinated stand-alone teams that only smoothed things down for the pro-presidential forces.

Election environment and authorities' campaign

Lukashenko's success was ensured long before the 2010 election. The president admitted in an interview to *Euronews* on June 24, 2010, "I have enough political intuition, enough methods to see it [whether the Belarusians liked him or not. — V. R.]. The election can only confirm that".³ In other words, the head of state briefly yet intelligibly described his plan for the oncoming election campaign and set administrative tasks for functionaries.

First of all, we should lay emphasis on Belarus' essential dissimilarity from other European states, not only democratic, but also some hybrid regimes, for instance competitive authoritarian systems. Elections there provide support to one or another leader legitimizing his position as a ruler. It is different in Belarus: in the beginning, the administrative resources and officials of all levels and ranks are mobilized (which Lukashenko calls "other methods") to gain hundred-percent confidence in election victory and after that comes an election, which only confirms the preset result that has nothing to do with actual election returns. It is Lukashenko's *know-how*, which he is very proud of and takes every opportunity to mention it and highlight his uniqueness.

When talking about equal opportunities for all contenders with a *Euronews* reporter, Lukashenko hoped that the Europeans are ignorant of the situation in Belarus. The proclaimed equality was certainly out of the question. The low ratings of the opposition candidates showed that the incumbent president had secured his decisive advantage — informational, financial, and organizational — at the very start of the race. Lukashenko controls television, radio, large newspapers, while the Internet still remains "entertainment" for a small audience of those inclined to protest that makes it impossible to raise ratings of opposition candidates quickly and effectively.

³ Rovdo V. Valuable confessions of Alexander Grigoryevich // *Nashe Mnenie*. 03.08.2010 [Electronic resource] Mode of access: <http://nmnby.eu/news/analytics/2819.html>.

Reputed political scientist Aris Trentidis was right saying that the Belarusians' economic dependence on the state is used by the powers that be for consolidation. It remained highly valuable during the 2010 presidential campaign. The researcher takes credit for outlining of this structural factor which after all explains consolidation of authoritarianism in Belarus: the combination of a *lack of economic liberalization and political democratization*.

In fact, unlike other post-communist states, Belarus has been doing without structural market-oriented reforms for over one decade and a half. This situation brings forth people's dependence on the government never-before-seen in present-day Europe: in 1995 – 2007, 55% to 60% of the employed population worked for state-run enterprises and establishments.⁴ On top of this, the tiny private sector of Belarus' economy has fallen under tight control of the state. It all largely retards development of nongovernmental organizations, political parties, and independent media outlets. People's economic dependence on the government restrains their criticism addressed to the authorities and their support for the political opposition.

Before the election, the government worked diligently to fetch voters thus shaking very unstable macroeconomic frame. Economic analyst Fyodor Zhakhov notes, "Since August 2010, the country's foreign trade deficit has expanded much faster than the year before. To make up for that gap, Belarus needs to borrow almost USD 1 billion from foreign sources on a monthly basis. German economic advisor Riccardo Giucci is alarmed at the dynamics of the Belarusian foreign debt, which had reached 45% of GDP by mid-2010, an increase from 20% back in 2007. If this growth rate persists, Belarus' foreign debt could reach a level, where the country might fail to service it. This economic policy will inevitably bring about inflation hikes, and Giucci believes consumer inflation will exceed 10% in 2011. Furthermore, marked fiscal difficulties will likely remain, as the state budget is suffering from the growing deficit, while the government prepares for a massive increase in wages in the public sector, by 30%. The expert believes the wage push may affect the competitiveness of Belarusian producers on foreign markets and will further deteriorate the foreign trade figures. Anyway, the German economist is not the first to point this out to the Belarusian

⁴ See: Trantidis A. The Economic Understanding of Semi-Authoritarianism. Explaining Preferences and Power Relations in the Case of Belarus // *EU-Consent. Constructing European Network*. 2007. P. 5 – 12.

authorities, which would not listen to anyone, including the IMF, prior to the presidential election"⁵.

It becomes clear now why the presidential election was held ahead of schedule: there would be much more people in 2011 unsatisfied with their financial status.

Belarus' unreformed economy did not stagnate as it could be predicted, but developed quite rapidly until 2009. It made it possible for President Lukashenko to share a part of the profits with the population thus enhancing its dependence and obedience even more. The situation is also unique as such state economy "miracles" are observed nowhere in the world nowadays.

This "miracle" is however explained by the long-lasting enormous support for the regime coming from the Russian Federation. This orientation to a single foreign partner, quite dangerous when it comes to national independence, began to change in 2008 after Alexander Kozulin, Lukashenko's chief opponent in the previous election, was discharged from prison and after Belarus was involved in the European Union's Eastern Partnership program.

During the global financial recession, the International Monetary Fund and World Bank gave loans, which helped the regime to cope with difficulties. It looked like the western foreign policy vector was attached the same importance as the eastern vector. Since the policy of rapprochement with the European Union was not accompanied by economic or political reforms, this U-turn had a latent possibility of transformation into one more stone to the foundation of individual rule in Belarus.

This Minsk-EU rapprochement peaked on November 2, 2010 when the foreign ministers of Poland and Germany came to Belarus in the height of the pre-election campaign and promised generous financial support to the amount of € 3 billion in exchange for free elections. During that memorable meeting, Lukashenko said, "The president and members of parliament have never been elected in an undemocratic way. Especially the president. The forthcoming election will be much better now because you want it... You can even count votes if you want"⁶. It is worth noting that the Belarusian regime now

⁵ Zhakhov F. Everything for the Front, Everything for the Victory! Macroeconomics takes rest by the presidential election // *Belorusskaya Gazeta*. 2010. Nov. 8. № 44(767).

⁶ See: "Lukashenko: *The president and members of parliament have never been elected in an undemocratic way*" 02.11.2010 // [Electronic resource] Mode of access: <http://charter97.org/ru/news/2010/11/2/33478/>

claims that it was Poland and Germany to hatch a plot to overthrow the president against all constitutional fundamentals.

Right from the start, Lukashenko's election campaign was unwinding against the background of the information war between Belarus and Russia, which however ended before December with a visit of the Belarusian leader to Moscow. I cannot but agree with Zianon Pazniak, who said in this respect, "Their political qualities [meaning opponents of the regime who had been cherishing hope that Russia would dismiss the election as fraud until the last minute. — V. R.] were tested December 9, 2010 when Lukashenko unexpectedly went to Moscow to meet with his alleged "foe", Medvedev, signed documents on the common economic space, harmful to Belarus, received a promise on duty-free oil supplies in exchange, and came back to Minsk pretty much satisfied"⁷.

All the above considered, the crackdown on Lukashenko's opponents was totally uncalled for. The president fully controlled the situation. The mobilized executive chain of command, Central Election Commission, governmental mass media — the entire mechanism was running to pave the way for his next self-appointment. The populist economic policy — no matter that it led to a dead end — was beneficial for most voters. Prior to the election, the government entered into meaningful agreements with Russia, and Europe was likely to recognize the election this time, probably not as free and fair as it would like it to be, but exhibiting progress towards European standards.

The opposition managed to attract 30,000 to 40,000 people to the protest rally, but in general, it failed to consolidate and was not ready to assume power. There is no radical opposition in Belarus capable of using force to confront the government. Therefore, the accusations that political parties and NGOs intended to be aggressive during the peaceful protest rally were absolutely groundless.

Boris Berezovsky, who knows the situation in Belarus well enough, believes the 19 December events were instigated by the Russian special services. All that happened on that night was advantageous to Russia and totally disadvantageous to Belarus and the West. Russia got unlimited opportunities to orchestrate the further situation in Belarus and, as a matter of fact, drove the Belarusian authorities into a corner. Berezovsky has no doubt that Lukashenko's closest associates, his own

⁷ Pazniak Z. Time to dot i's // Liberty Radio. 01.02.2011 [Electronic resource]
Mode of access: <http://www.svaboda.org/content/article/2294204.html>.

special services, just framed him and misguided him on what was really happening in the city square on December 19. "And those officers certainly work for the Russian special services as well," he says.⁸

I reject this conspiracy theory, as I think it was Lukashenko and nobody else to make the final decisions being perfectly aware of what was going on in the square. It's another matter that those decisions were coordinated with the Russian leaders. It is well known that survival and reproduction of the Belarusian regime cannot rely on strategic partnership with the West in any case, but desperately needs aid and support from "brotherly" Russia, which does pressurize Belarus demanding democratic reforms, being an authoritarian state itself, actually.

It does not mean that all speculations of the Belarusian authorities and moderate opposition concerning the policy of liberalization in Belarus are a delusion or self-delusion. Official Minsk has never regarded rapprochement with EU as a long-term strategy, but only as a tactical bargaining chip to squeeze economic preferences from Russia. The 2010 election campaign cleared the air: leaders of the pro-European opposition are neutralized, the regime obtained support from Russia, and the country is in isolation from the civilized world where the Belarusian ruler was not going to lead people anyway by his own admission.

Opposition's campaign

It is hard to assess the opposition's participation in the presidential campaign in a word. There were ups and downs in comparison with the year 2006. The fact that most candidates were highly motivated to fight to the end and attracted a huge crowd to the protest rally was an appreciable step forward. The presidential candidates realized that elections in Belarus are a sharade, and mostly focused not so much on election as mobilization technologies. They tried hard to make the best use of the three months of the race concentrating on one crucial point: they explained voters that the election was not free and fair and call on people to come together for a final protest rally on December 19.

In terms of political science, most opposition contenders intended to impose their own game aimed at *replacement* of the regime upon the

⁸ See "Berezovsky: Officers of the Belarusian special services work for Russia" // *Liberty Radio*. 22.01.2011

president and his associates instead of seeking a *pact* with the authorities. In the opinion of known American political scientist Michael McFaul, "Transitions from communist rule to new regime types are so different from the third wave democratic transitions in the 1970s and 1980s that they should not even be grouped under the same rubric... Specifically, the relationship between mode of transition and democratization outcome is totally different in the post-communist world as compared with Southern Europe and Latin America. Imposed transitions from above in the former communist world produced not partial democracy but dictatorship. It is instead revolutionary transitions — the mode of transition thought to be least likely to facilitate democratic outcomes by third-wave theorists — that have actually produced the most stable and consolidated democracies in the post-communist world. Balanced, stalemated transitions — those most likely to facilitate the emergence of democracy-enhancing pacts in Latin American and Southern Europe — have instead led to unstable regimes of both the democratic and the autocratic variety in the post-communist world"⁹.

Activity within the "replacement" paradigm was more like a non-conscious choice of a certain part of the Belarusian opponents to the regime, rather than a well-thought-out victory strategy, but it certainly might lead to success under certain conditions. It should also be kept in mind that they had to confront the harshest authoritarian regime remaining on the European continent, which has eliminated parliamentarianism, the party system, and elements of independent judicial branch.

This strategy was also a kind of a reaction to the very poor campaign of the joint candidate nominated by the United Democratic Forces coalition (UDF) in 2006 and the political forces in Belarus, which have been advocating a dialogue with the regime as the only opportunity to transform it gradually from above. The For Freedom movement and some of its allies still persist in this opinion.

The fact that the European Union did not accept Lukashenko's self-appointment as a free and fair election is undoubtedly the second accomplishment of the opposition. Many political scientists and politicians say and write that this threat was very real.

After all, the opposition's performance was much better in Minsk, than in the provinces. Lukashenko did not poll even 40% in the capital.

⁹ McFaul M. The Fourth Wave of Democracy and Dictatorship. Noncooperative Transition in the Postcommunist World // *World Politics*. 2002 (Jan.). Vol. 54. P. 221.

According to the IISEPS, the president was not far ahead of his rivals as elsewhere across the country.

Now we will try to analyze shortcomings of the democratic candidates' campaign. First and foremost, it is the split in the opposition. The UDF is not a distant past. Until fairly recently, the coalition united almost all opposition forces from the democrats-communists to the democrats-nationalists from the Belarusian Popular Front (BPF). The largest opposition association began falling apart after the 2007 congress. Supporters of former joint candidate Alexandr Milinkevich (mostly members of nationalist parties and NGOs) attempted to form a new association — the Belarusian Independent Block (BIB) — but did not survive the strength test either and actually fell to pieces after failed to compromise over a joint candidate.

Attempts to arrange a primary election among opposition parties and public associations aimed at nomination of a joint candidate initiated by the United Civic Party came to nothing. The Belarusian primaries struck a stone of uncompromising attitude exhibited by the former joint candidate of the UDF and his followers. Nonetheless, on August 24, 2010, representatives of some political parties and organizations put their signatures under an agreement on coordination of actions. Six paragraphs of the agreement called for cooperation in such areas as community outreach and negotiations with the authorities, monitoring of elections at polling stations, and organization of mass protest actions in case of improper ballot procedures.¹⁰

Later, during the campaign, leader of European Belarus campaign Sannikov and leader of the Speak the Truth campaign Neklyayev entered into an agreement being the most popular presidential candidates. It was obviously not enough. The lack of coordination was dramatic both at the start and the finish of the election campaign.

Another point is closely linked with the one above. Leaders of most political parties regarded participation in the presidential election as an opportunity to popularize themselves and increase visibility of organizations they represented. Thus some of the parties nominated not their chairmen, but young and ambitious vice chairmen.

They believed that the three months would be enough to achieve the stated objectives, which was a strategic mistake. None of the party candidates could count for the victory or at least make it through to

¹⁰ See: "Opposition leaders sign the agreement on coordination of joint actions" // *Liberty Radio*. 24.08.2010.

the second round standing alone, because the public at large just did not know them well. A narrow channel of opportunities really opened for them, but it was shut down right after the official election result was announced. As a matter of fact, the parties had to create a *semblance of political pluralism in the country* (first of all for European observers) during the campaign. It would be wiser to use the available scarce resources for an attempt to change the rules of the political game cardinally and create real pluralism in case a joint candidate's team prevails.

The harbored illusion about Russia's position and its role in the Belarusian election was one more essential shortcoming. It manifested itself differently among the opposition election runners. On the one hand, Milinkevich and Kostusev painted a fantasy picture of intervention of the pro-Russian opposition. The Belarusian Popular Front developed a strategy of a fight on two fronts. It only poured oil on the flames of conflicts between parties and organizations, and their ambitious leaders speaking on behalf of the opposition. Neklyaeu and Sannikov were assigned the role of pro-Russian candidates.

But nothing like that was actually observed. It is enough to study their election programs, TV addresses to the nation, and speeches they made during protest rallies. Andrey Sannikov is a strongly marked pro-European politician, while Vladimir Neklyaeu advocates preservation of Belarus' sovereignty and cautious rapprochement with EU in future. Both Neklyaeu and Sannikov played a key role in organization of nonviolent protest actions. Without them it would be hard to explain the Belarusians, Europe, and Russia this simple fact that the authorities redistributed popular vote once again in the 2010 presidential elections.

On the other hand, Neklyaeu and Sannikov's opinion that Russia will not shake hands with Lukashenko after the election is beneath criticism. The authoritarian regime established in Russia has been sponsoring autocracies on the entire post-Soviet space all the time maintaining their heavy dependence on Moscow. At the same time, the Russian elite is not united or consolidated when it comes to the "Belarusian issue." The oil and gas monopolies linked with European and American capital, which are obviously pulling strings in the Medvedev Administration, are not interested in keeping the Belarusian economic model afloat. They want to establish market relations between the two countries, while the Russian Military-Industrial Complex is still inclined to lobby sponsorship for the Belarusian incumbent head of state.

Over the years of the oil-for-kisses policy, Lukashenko has acquired an image of the only reliable protector of Russia's interests on the western direction. Therefore the anti-Lukashenko trend set among leaders of the Russian Federation did not last long. After all, Putin decided to place his stake on the retention of power by the first president of Belarus, but imposed quite a number of economic agreements strategically dangerous for Belarus.

The opposition made some other mistakes. Above are the most general ones. The regime used all of them to secure the self-appointment of the Belarusian leader for the fourth presidential term.

Conclusion

The election campaign of 2010 and its outcome were not a surprise to experts, political scientists and journalists. Alexander Lukashenko managed to secure his actual self-appointment for the next term and crushed the politically active part of Belarusian society. But his fourth term will be a tough call for citizens of Belarus, even those who gave votes to this politician open-heartedly.

Belarus' economic and political systems are in desperate need of pivotal reforms and profound transformations. The country suffocates without them. Belarus finds itself lagging for decades. Only the political minority has shown the understanding that the era of "strict yet fair dictators" ended long ago. The majority still hopes for a miracle as before. But miracles only happen in fairy tales. To be more exact, they cost dearly in real life. Lukashenko's fourth presidential term is likely to be a period when the Belarusians will have to pay the bills of the regime to the utmost.

PRESIDENTIAL ELECTION: SOCIOLOGY OF ELECTORAL STABILITY

Sergey Nikolyuk

Summary

In the last year of the president's five-year tenure, Belarusians had anxious expectations, which even the November surge in wages could not calm down. Anyhow, Lukashenko managed to accomplish his prime task by scoring another election Victory. However, the price of this Victory remains unclear either to himself or his political opponents. The official recognition of a split in society is just one of the consequences.

Tendencies:

- Electoral support for Lukashenko declined basically due to resource problems of the government aggravated by the global recession;
- Redundancy of opposition candidates did not affect their electoral ratings;
- The electoral structure of Belarusian society has not undergone essential changes over the years of independence;
- The 'winner-takes-it-all' election deepened the split in Belarusian society.

Final outcome

The outcome of the fourth presidential election (see Table 1 for voting patterns) did not surprise independent sociologists.¹ With an 87% turnout, Lukashenko was in the lead by 59 percent to 32 percent received by the eight oppositional politicians. Only Viktor Tereshchenko and Dmitry Uss found themselves beyond the eight others but it did not change the picture considerably.

Table 1. Answers to the question "Who did you vote for at the last presidential election? (% of respondents)

	1994	2001	2006	2010
A. Lukashenko	35	48	58	51
Democrats	26	21	24	28
Other contenders	19	3	2	1
No answer/do not want to answer	2	9	5	4
Against all	4	7	3	5
Did not vote	14	12	8	12

¹ Data provided by the IISEPS here and below. See: www.iiseps.org.

As usual, the data provided by the Independent Institute of Socio-Economic and Political Studies (IISEPS) differ from the official results. The Central Election Commission (CEC) reported a 90.66% voter turnout, 79.7% ballots cast for Lukashenko, 14.0% for his opponents, and 6.3% against all. The difference between the IISEPS and CEC's figures gets bigger from election to election. With regard to the total number of eligible voters, it made up 15.2% in 2001, 18.9% in 2006, and 21.1% in 2010.

The official election returns traditionally coincide with pre-election opinion polls conducted by the Presidential Administration's Information-Analytical Center (IAC) within the accuracy of 1%. According to the last polls arranged by salaried sociologists, Lukashenko was supposed to have 80.5%, his opponents were given 14.5%, and 5% were at a loss to answer. And so it happened, notwithstanding that IAC counted poll respondents and CEC counted voters.

The IISEPS however did not second the opposition politicians' belief that a new electoral situation was observed in Belarus. With this belief in foundation, they constructed a whole Victory strategy with a crowd in the central square of the capital as a concluding chord. On the other hand, the figures published by SOCIUM International Center for Sociological and Marketing Research (33.3% for Lukashenko, 15.1% for Neklyayev, 10.6% for Sannikov, and 8.2% for Romanchuk) met the oppositional candidates' expectations the most.

The sociological characteristics of Lukashenko's electoral base did not change considerably in 2010. He enjoyed support of 24% of voters at the age of 18 to 19 and 73% of those at the age of 60 and over. Education: grade school graduates — 69%, university graduates — 46%. Social status: state sector employees — 53, non-state sector employees — 32%. Population cluster type: the capital — 40%, villages — 62%. Taking into account that the average female human life expectancy is considerably higher than that of men and women are less inclined to take risks and therefore prefer to work for state-run enterprises, Lukashenko's constituent body still has "a woman's face" with 59% against 41%.

Structural stability

Three more candidates — Alexandr Dubko, Vyacheslav Kebich, and Vasily Novikov — fought for a return to the "Soviet past" in 1994 alongside Lukashenko. All four harvested 54% (35% + 19%). It means

that the structure of the Belarusian electorate has not changed or changed slightly since the first presidential election.

Opinion polls did not detect any new tendencies regarding the respondents' intent to protest against the election results in case of improper ballot procedures (Table 2). It should be taken into account that the figures, which indicate respondents' willingness to take any actions, are just declarations of intent. Some sort of a social trigger is needed to make them pass from words to deeds. The "color revolutions" — first of all the "orange" revolution in Kyiv — were such a trigger in 2006. In 2010, the trigger carried a *Made in Belarus* tag, and it was put there by the authorities, which wanted a "cheerful" election.

**Table 2. Dynamics of answers to the question "What would you do believing that the presidential election was rigged?"
(% of respondents)**

	Aug 2001	Feb 2006	Oct 2010
I will resign myself to this because there's no getting away from it	44	37	41
I will take part in mass protest rallies trying to change the outcome	10	9	11
I will not trust the official results and they will disappoint me greatly, but I will not take part in mass protest rallies	25	35	24
I am at a loss/do not want to answer	21	19	24

The relative invariableness of the number of those ready to protest publicly is one more indicator of steadiness of the Belarusian electorate's structure.

An explanation for this steadiness should be looked for in the "Belarusian economic model" announced during the seminar arranged for republican and local executives in March 2002. Specifically, it rests upon a strong and effective government, priority of state interests over interests of individuals, and privatization aimed at attraction of a "motivated investor". Under these social and economic conditions, the country sees invariably high share of state property (nearly 80%) and invariably high number of citizens lacking skills for survival without parental care of the state.

The role of propaganda in regulation of people's behavior should not be overestimated. It is the routine practices that make the people

what they are in this respect. In November 1994, the number of centrally planned economy supporters in Belarus constituted 46% and free market economy advocates made up 51%. By September 2010, the number of the first reduced to 16%, while the latter were up to 67%. The basic changes fell within a short time period between 1994 and 1997. The economic preferences of the Belarusians practically did not change in the 2000s.

However, the state property prevalence itself does not explain much. In the Soviet Union, private ownership of the means of production was under a legal and ideological ban that could not prevent the "largest catastrophe of the XX century". The Belarusian economic model is not a thorough reconstruction of Soviet patterns. In the opinion of its chief architect, "the distinctive feature of our model is a strong social policy of the state". It is really hard to find another country amid the global recession, the leaders of which would spare no efforts to fulfill pre-crisis social commitments with manic persistence.

As a matter of fact, Lukashenko started his fourth election campaign on December 30, 2009 by giving wages a sacral status. "As to the wages, you know, we undertook a commitment: average wages must reach USD 500 within a year. This figure is sacred! It was established at the All-Belarusian National Assembly five years ago. We must do it!" he said in a meeting with reporters of Belarusian national and regional media outlets.

Lukashenko's lowest electoral rating ever was reported in March 2003 (Table 3). It was caused by slowed down growth in real value of cash incomes of the population, but then the advance in oil prices reversed the trend dangerous to the government. The households' real incomes had been showing a double-digit growth for five years in a row, 2004 through 2008. For this reason, a 60% rating in the third presidential election year is not something incredible.

**Table 3. Fluctuations in A. Lukashenko's electoral rating
(% of respondents)**

Mar 2003	Apr 2006	Sep 2008	Dec 2008	Mar 2009	Jun 2009	Mar 2010	Jun 2010	Sep 2010	Oct 2010	Dec 2010
26	60	43	40	39	41	43	46	39	44	51

The income growth stopped in 2009 but it did not affect popularity of the only Belarusian politician in any way. The global recession came in handy to shift the blame onto. This shift would certainly be impossible

without accompanying explanations provided by the governmental mass media. Lukashenko's rating dropped just 4 points between the last pre-crisis poll conducted in August 2008 and that of March 2009 when the social indicators were down to the 2000s' minimum.

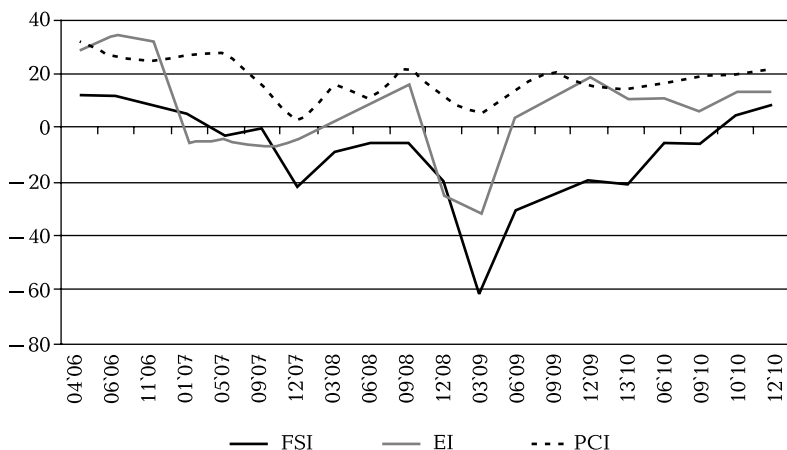
The entire year 2010 passed under the banner of struggle for the "sacred figure." In conditions of resource scarcity, the wage hike from the level of 381 dollars was achieved owing to the final spurt in November 2010 that called for a 31% increase in the first grade wage rate and a 55% increase in the minimum wage. Five years ago, 61% of the Belarusians believed in doubling of wages in the U.S. dollar equivalent. In December 2010, only 36% believed in 500-dollar wages. This paradox is probably one of displays of people's anxiety on the threshold of the presidential election. The National Bank's statistics seems to reflect this anxiety the best: in 2010, the net purchases of foreign currencies by the population exceeded 1.5 billion dollars. In the last analysis, this anxiety resulted in a 7% decrease in Lukashenko's electoral rating as compared with "well-heeled" 2006.

The Belarusian version of a "strong social policy" should not be narrowed down to increase in wages and retirement benefits. Maintaining of the social stratification close to the European level is another component. "Everyone in the world says now that in our country incomes of the poor, roughly speaking, are lower than incomes of the rich 3 to 4 times, like in Sweden where this index is the best in the world," Lukashenko said, "It is 25 to 30 times in Russia, which is catastrophic. It is a prerevolutionary situation." The figures that Lukashenko referred to are the decile dispersion ratio, which presents the ratio of the average income of the richest 10 percent of the population divided by the average income of the bottom 10 percent. According to the official statistics, these figures are 5 to 6 in Belarus and 17 in Russia, but most Russian experts believe that the Federal State Statistics Service (*Rosstat*) understates the decile dispersion ratio essentially.

Successes and failures of the Belarusian government in fulfillment of the social obligations assumed at the III All-Belarusian National Assembly are vividly illustrated by the changes in social indexes, i.e. the difference between positive and negative answers to the three basic questions: "How has your personal financial status changed in the past three months?" (Financial Status Index, FSI), "In your opinion, how is the socioeconomic situation in Belarus going to change in the next few years?" (Expectations Index, EI), and "In your opinion, is the situation in our country changing in a right or wrong way?" (Policy Correctness Index, PCI).

In the year of the third presidential election, the values of all three indexes were the highest over the past five years (Fig. 1). The year 2007 began with a doubled price for Russian gas. The informational confrontation that followed resulted in a 37 point drop of the EI at once. We note that the EI is known for the greatest "fearfulness." This index is usually the first to react to negative information. As to the FSI, it is determined "by the life itself." Its crushing in December 2007 was a direct result of the doubled sunflower oil prices. The global financial crisis had been the major factor affecting social mood since late 2008. Its perception peaked in March 2009.

Fig. 1. Changes in the Financial Status Index, FSI; Expectations Index, EI and Policy Correctness Index, PCI



However, the crisis was not as terrifying as it looked at first. In 2010, the government engaged in ramping up wages and pensions. By the time of voting, the social indexes were up to an appreciable level, although they did not reach the values of 2006. Lukashenko's electoral result was lower accordingly.

Recognition of a split

Official recognition of a split in Belarusian society was an important result of the fourth presidential election. During the press conference held December 20, 2010, the day after the violent disruption of the rally in the Independence Square, Lukashenko said, "Let's be honest:

20% either voted against or voted for alternative candidates. We must admit that there is plenty to think about."

We remind that the comment on the outcome of the 2006 election was totally different. Lukashenko put the Central Election Commission head in an awkward position saying more than once that the election was deliberately engineered. In an interview to First Deputy Director General of ITAR-TASS News Agency Mikhail Gusman in August 2008, he said literally, "For your information, I polled 93% in the past election. And I admitted afterwards, when they started to pressurize me, that we fixed the election. And I put it straight, "Yes, we did." I ordered to make it not 93% but around 80% or something, I do not remember, because 90% is beyond psychological comfort. And that was the truth." In the New-Year greeting speech, Lukashenko addressed the "majority" and "minority" for the first time instead of the "solid Belarusian family."

The split in Belarusian society is no secret for those who stays updated on independent opinion polls. It comes out with every answer to a politics-related question. Each part of Belarusian society takes an independent stand on the financial status changes, Belarus' development prospects, and states opinion on development trends. If to calculate the social indexes separately in relation to those who trusts Lukashenko and those who do not (Table 4), it would look like the first live in Switzerland, and the rest live in Somalia.

Table 4. Values of social indexes* depending on the attitude to Lukashenko

	FSI	EI	PCI
All respondents	9	13	22
Trust Lukashenko (55%)	30	45	72
Do not trust Lukashenko (34%)	−28	−26	−52

* FSI — Financial Status Index; EI — Expectations Index; PCI — Policy Correctness Index

The Belarusian variant of a split does not suggest a dialogue between the "official" and "independent" communities. The official recognition of the "minority" does not mean that dissentients will be given floor to voice their priorities. On December 20, Lukashenko promised "to think", but the result of his intellectual efforts have not been given public utterance yet. Meanwhile, any split is a frozen revolution, and not necessarily a "color" one.

FOREIGN POLICY

RUSSIAN-BELARUSIAN RELATIONS: ULTIMATE DEPENDENCE

Valeria Kostyugova, Anatoly Pankovsky

Summary

The year 2010 saw more conflicts between Russia and Belarus than any other year in the history of mutual relations as independent nations. The year traditionally started with a conflict – this time over crude oil supplies – and ended in cold uncertainty: Russia de-facto recognized Lukashenko's authority as president, but disappointed his expectations of both cheap oil supplies and large-scale political support.

The information campaign of Russian television channels and other media targeted against Alexander Lukashenko in the second half of the year was unprecedented: the Belarusian regime had never before undergone such an intensive external media pressure. Meanwhile, the December 19 events brought to naught Minsk's efforts to pursue autonomous policies internationally and regionally (this trend had been observed in the past few years); as a result, Minsk appeared to stay, willy-nilly, with the only political ally, Russia. The country's track record of the past decade proves that the dialogue with the East has been as dramatic as the dialogue with the West.

Tendencies:

- Progressive increase in prices of Russian natural gas and crude oil supplied to Belarus towards regional tariffs;
- Integration of the trade area of Russia, Kazakhstan and Belarus, unification of rules within that area;
- Destruction of Lukashenko's reputation in the Russian media space.

In 2010, three factors shaped the pattern for development of Russian-Belarusian relations. The first one was the election campaign in Belarus and the presidential campaign in Russia, which marked its start in 2010. The second factor is connected with the new trend for identifying the chief parameters of energy trade in the framework of the decreasing significance of Belarusian transit. The country is therefore prompted to seek alternative suppliers of energy, including Venezuelan and Caspian oil. The third factor is the establishment of the common trade area – the Common Economic Area (CEA) incorporating customs territories of Russia, Kazakhstan and Belarus. However, the jack-in-the-box grand finale of the year was as far from being a summary of all trends observed in the first eleven months as it could

be. The brutality of law enforcement bodies on December 19 made the task of preserving social and economic stability virtually impossible, whereas the Russian administration was faced with a new complicated yet exciting challenge to use the opportunities that all of a sudden occurred in Belarus.

Media dialogue with Russia: *Krestny Batka*

Media conflicts between Russia and Belarus have not been infrequent in the past decade (they were quite rare during the Yeltsin era, though) and were traditionally accompanied with all sorts of trade wars, specifically oil and gas spats. Therefore, the full-scale media war of 2010 was definitely a new phenomenon characterizing Russian-Belarusian relations.

Krestny Batka (a blend of "godfather" and "nation's chief", a. k. a. "god-batka") is a four-episode documentary severely criticizing the Belarusian president. Russian NTV television channel aired the four episodes in its *Emergency* show between July 4 and October 8.¹ Besides the notorious documentaries, the Russian print media published a series of articles that displeased the Belarusian president (as did many news reports and analytical television programs). Finally, in his personal blog Russian President Dmitry Medvedev called on his Belarusian counterpart to investigate into the cases of missing opponents of the Belarusian regime, a move that received broad publicity.

The media attack was so violent that many in Belarus (including experts and even Alexander Lukashenko himself) concluded that the Russian administration was going to remove Lukashenko from his office. The Belarusian president very emotionally shared this news at a meeting with Russian journalists on October 1. According to him, the media warfare targeting him was part of a large-scale conspiracy masterminded by Medvedev and Putin. The list of their victims already included many political heavyweights — cast-off rulers of Tatarstan, Bashkiria and Kalmykia — Mentimir Shaymiev, Murtaza Rakhimov and Kirsan Ilyumzhinov, respectively, as well as former Moscow Mayor Yuri Luzhkov².

¹ See: http://ru.wikipedia.org/wiki/Крёстный_батка.

² See: *Belarus partisan*. 04.10. 2010 // [Electronic resource] Mode of access: <http://www.belaruspartisan.org/bp-forte/?page=100&backPage=6&news=68486&newsPage=0>.

We have to admit that Lukashenko's words were not politically senseless, since Medvedev and Putin should be eager to neutralize potent political personalities on the eve of a new election cycle in Russia. It is another matter that the media campaign that in this way or another accompanies each election cycle targets Russian consumers rather than the Belarusian audience. In this context, Lukashenko's suspicions (expressed during the same October 1 press availability) that the Kremlin was financing the Belarusian opposition are hardly valid.

To kick out some significant political persons, such as Yury Luzhkov, was only a part of the "conspiracy", because its "main course" envisaged a neutralization of harmful (as the Medvedev-Putin tandem saw it) ideas, including the Belarusian "miracle", a posthumous edition of socialism. Ironically, while trying to become an internal factor of Russian politics, Alexander Lukashenko indeed became such a factor, but his true role appeared to be quite different from what he had originally expected. The Russian ruling elite now needs to neutralize this factor, needs to discredit the fetish that Alexander Lukashenko has turned into. Therefore, as content analysis shows, the described media campaign as a whole and Krestny Batka documentaries as its part include the following clear messages to Russian voters:

(1) Alexander Lukashenko is a not a political ally of Russia; he ignores integration initiatives of Russia and makes arrangements with its enemies, such as Boris Berezovsky, Mikheil Saakashvili, etc.

(2) The mediocre economic policy pursued by Lukashenko costs Russia too much, because the Belarusian "socially-oriented" state" can exist only at the expense of Russian taxpayers ("Russians feed Lukashenko"). Lukashenko will not share this money with Belarusians (the topics of corruption, clanship and old boy networks);

(3) Lukashenko is not the real choice of the Belarusian nation, because he rigs elections and eliminates political opponents, therefore, relations with Lukashenko and relations with Belarusians are two different layers of relations.

The media campaign is therefore aimed at, *firstly*, legitimization of the disintegration trends observed in the past few years, which some Postsovieticum leaders are blamed for. The message is addressed to advocates of "grand Russia", or the USSR³.

³ Sixty percent of Russians regret USSR collapse, 66% support integration in various forms: see: Yury Levada Research Center // [Electronic resource] Mode of access: <http://www.levada.ru/press/2009122101.html>.

Secondly, the campaign was designed to discredit socialist ideas, supported by an estimated 40% of Russians (President Lukashenko is perceived as a personified fetish of contemporary socialism). *Thirdly*, the media warfare neutralizes unwanted top-ranking figures of the Russian political field.

Public opinion polls showed that *Krestny Batka* documentaries managed to slash Lukashenko's sympathy rating to 5% (from 30% previously). A preliminary conclusion that can be drawn here is that the propaganda campaign was a success. As for Lukashenko himself, there are good reasons to believe that the Medvedev-Putin tandem had not set itself the more ambitious task of unseating the Belarusian president.

Problem of oil supplies and Customs Union

The year 2010 started traditionally, with a conflict over terms of Russian crude oil supplies to Belarus. The original agreement was inked in early 2007 and stipulated deliveries within three years to come, therefore, the Russian side believed oil trade with Belarus should follow the usual procedure starting 2010, that is, subject to a 100% export duty. The Belarusian side had hopes that starting early 2010 all oil deliveries would be in accordance with the rules effective prior to the 2007 deal, that is, cheap and without any duties.

The two countries haggled the entire month of January, and on January 27, First Deputy Prime Minister Vladimir Semashko and Deputy Prime Minister Igor Sechin reached a compromise on the terms of trade in Russian crude oil. Russia imposed a 100% export duty on the entire volume of deliveries to Belarus except for 6.3 million metric tons meant for domestic consumption. The new framework automatically meant a serious reduction in Belarusian oil sector margins, and since "oil" has always been a benchmark for the Belarusian economy, the duty introduced in Moscow was regarded as a threat to the economic security of the country. On the day the agreement was signed, Vladimir Semashko said: "The agreement as we sign it today cannot last long." The Belarusian side therefore redoubled efforts to look for alternative sources of oil and oil products, and sought to make Russia resume oil supplies on previous easy terms. Those efforts proved to be fruitful: *firstly*, Minsk managed to agree on Venezuelan oil supplies, procuring an additional bargaining chip in talks with Russia. *Secondly*, Belarus contrived to launch oil transport

via Ukraine by Odessa-Brody oil pipeline, which brought into action the project to transit Caspian oil to the EU by the pipeline system of Eastern European states (for details, see: Dunaev V. *Regional Integration in Eastern Europe*, Belarusian Yearbook 2010). Finally, Russia undertook to abolish oil export duties in the Customs Union and the Common Economic Area. For this matter, oil became the carrot that Russia used quite efficiently (despite the clearly unfriendly tone of Russian-Belarusian relations) to draw Belarus into the Customs Union and the CEA, that is into an integrated trade and political project implemented mostly on Russian terms, including the unification of motorcar duties, sanitary norms, and the use of safeguards, antidumping and countervailing measures). On November 19, the premiers of the three CEA member-states — Russia (Vladimir Putin), Belarus (Sergey Sidorsky) and Kazakhstan (Karim Massimov) inked a number of documents from the package of deals to form the CEA.⁴

Finally, ten days prior to the presidential election in Belarus, on December 9, 2010, Lukashenko, Medvedev and Nazarbayev in Moscow signed a package of *seventeen* agreements to form the regulatory framework of the Common Economic Area (CEA).⁵ The package included the foreign trade agreement, veterinary and sanitary control agreements, indirect tax collection agreement, customs statistics agreement, etc.⁶ For its part, Russia promised to supply oil to Belarus without applying export duties starting January 1, 2011. Importantly, Belarus had taken the entire year to negotiate the Customs Union and CEA documents and haggled over each provision. The key condition laid down by the Belarusian side was the supply of cheap duty-free crude oil. After December 9, Minsk took just a couple of weeks to hastily ratify the whole package. Did Russia hold up its end of the deal? Formally, it did; but de facto it did not, because oil turned out to be much costlier than Belarus had expected. Crude oil has indeed been supplied to Belarus on a duty-free basis since January 1, 2011, but Russian traditional oil suppliers have been uninterested in further deliveries to Belarus.

⁴ See: *Customs Union, independent survey* // [Electronic resource] Mode of access: <http://www.customsunion.by/info/2501.html>.

⁵ See: *Belorusskie Novosti* // [Electronic resource] Mode of access: http://naviny.by/rubrics/politic/2010/12/09/ic_news_112_356880/.

⁶ *Customs Union, independent survey* // [Electronic resource] Mode of access: <http://www.customsunion.by/search/2010/12/9/>.

Gas supplies: end of easy gas

"Natural gas" has been a media favorite for years, and external observers could easily believe Russian-Belarusian relations were reduced to supplies and transit of natural gas, exclusively provided by OAO Gazprom. However, in 2010 natural gas took a backseat to more important issues, even though Gazprom suspended deliveries to Belarus in June to make Belarusian partners pay up. Gas therefore was moved into the "technical issues" category from "political issues". The issue had gained momentum in previous years, and the Belarusian side could not stop negotiating easier gas trade terms overnight — it continued bargaining over gas supplies in a package with oil issues, separately or just for the sake of bargaining. The Russian side firmly kept to the "contractual price" line, though.

As of the beginning of 2011, Belarus still enjoyed relatively preferential natural gas import terms and paid less than its neighbors (less than USD 300 per 1,000 cubic meters); however, the price keeps moving inexorably towards the regional level. Gazprom has therefore managed to teach Minsk some financial discipline and make the Belarusian gas market profitable.

Conclusion

In 2011, Belarus found itself critically dependent on what proved to be its single significant ally, despite its enormous efforts to diversify its foreign and domestic policies, as well as energy supplies. This result was not predetermined by the tendencies observed throughout the year, though. On the contrary, the events of December 19 nullified many of them, including the efforts Belarus had been making for months, for instance, its painstaking campaign to improve its contacts with the West. Finding itself in isolation (which was the price of Lukashenko's "success" at the presidential election), Belarus lost many of its bargaining chips in negotiations with Russia. As a result, it was dragged into the Customs Union and the CEA without adequate compensations, say, cheap natural gas and oil. Furthermore, being faced with the crisis, Belarus critically depends on Russian loans. There used to be a heavy dependence on Russian energy supplies and Russian outlets before 2010, but the two countries were interdependent, because Russia to a great extent needed Belarusian transit services. In 2011, that need is not as dramatic as it used to be, whereas Belarus is in a much more complicated situation than ever before.

Official Minsk is not just on unfriendly terms with Europe — it deceived European partners, which is a totally different thing. In this context, the tactics of wavering between the East and the West are not efficient anymore, and the Kremlin is perfectly aware of this. It is in the Kremlin that the main shareholders of the Belarusian regime reside, and it is on the next election cycle in Russia that the Belarusian regime ultimately depends.

BELARUS – EU: DIALOGUE ANTICIPATING THE ELECTIONS

Dzianis Melyantsou

Summary

In 2010, Belarusian-EU relations continued to develop along the same lines as those outlined in the previous year: a political dialogue developed, the formation of the Eastern Partnership structures proceeded, expert working groups worked in different directions, and the grounds for signing of the basic document which would regulate mutual relations were prepared.

At the same time, there were no breakthrough decisions and events in relations, as the European Union considered the presidential elections in Belarus as a test of the intentions of the Belarusian administration and subordinated further intensification of relations to the progress in the sphere of democracy and human rights. The delay of the Eastern Partnership development and decisions on multilateral regional projects and macro financial aid did not improve the relations between Minsk and Brussels.

The surge of repressions in Belarus after the presidential elections caused a dramatically negative reaction of the European Union and halted the process of enhancement of Belarusian-EU relations.

Tendencies:

- Having reached the outbreak in the western direction in 2009, the official Minsk concentrated on technical problems and the preparation of the legal foundations for relations with the EU;
- The slowdown of the Eastern Partnership program development and absence of fast financial results of cooperation contributed to the decrease of interest of the Belarusian authorities to the European vector in general;
- The presidential elections of December 19th interrupted the process of normalization in relations with the European Union.

Normalization without breakthrough

2010 started with another crisis with the Union of Poles in Belarus, which did not influence greatly the relations with Brussels, but was noticed by the leaders of the European Union. The Chief of European diplomacy Catherine Ashton denounced the actions of the Belarusian authorities against the Union of the Poles and noted that these events undermine EU efforts directed at the strengthening of rela-

tions with Belarus.¹ This conflict became the background against which the European Parliament mission worked at the end of February.

Due to joint efforts of the Belarusian civil society, experts and lobbying structures it became possible to redirect the problem of visa procedure simplification for Belarusians, away from the political dialogue between Minsk and Brussels. The EU Council approved the mandate of the European Commission for negotiations on the preparation of the Visa Facilitation Agreement and the Readmission Agreement. The Commissioner for Enlargement and European Neighbourhood Policy Štefan Füle during his visit to Belarus emphasized that the visa issue would be considered without political conditions². This decision can be considered as a token because low-price visas and simple procedures of obtaining them is almost the only instrument of fast creation of a pro-European mood among Belarusians. Earlier, Brussels subordinated a price cut for Schengen visas to the progress of democratization and liberalization in Belarus. However, low-price or free visas must be one of the prerequisites of changes in Belarus, instead of being an award for good behavior of the Belarusian government.

In February news appeared about the preparation by the European Commission of the document under the title the Joint Interim Plan which was supposed to serve as a roadmap of bilateral relations development between Belarus and the EU, and also as a temporary substitute of the Agreement of Cooperation and Partnership (ACP) that had been signed in 1995 but hadn't come into effect. The Plan embraces cooperation in those spheres that are mentioned in the ACP and is basically directed at the trade and economic sectors and at more profound cooperation between the two sides. According to this document the EU was to help Belarus implementing reforms. As in the case of the Eastern Partnership Belarus was involved in development of the plan, ensuring the interest of Minsk in this project. Also, the plan is not a legally binding document and thus does not provide any sanctions for violation of its terms. It had a framework

¹ Catherine Ashton condemns police action against Union of Poles in Belarus // [Electronic resource] Mode of access: http://www.enpi-info.eu/main/east.php?id=20768&id_type=1&lang_id=450

² Štefan Füle: the EU will simplify the visa procedures without political conditions // [Electronic resource] Mode of access: http://www.n-europe.eu/article/2010/11/22/shtefan_fyule_evrosoyuz_uprostit_vizovyi_rezhim_bez_politicheskikh_uslovii

nature and in November it was presented to Alexander Lukashenko in general terms. In case of a positive assessment of the election process in Belarus the European Union was going to start negotiations with the official Minsk in 2011 about filling in this roadmap with specific contents.

The year 2010 was rich in visits of European official persons to Belarus and Belarusian officials abroad. Foreign Affairs Minister Sergey Martynov visited Germany and Poland twice, as well as Slovenia, Hungary, Latvia, Belgium and Italy. Moreover, he went to Italy after the presidential elections in Belarus during the early surge of repressions.

It is necessary to mention the most relevant European visitors: first of all, the president of Lithuania Dalia Grybauskaitė who visited Minsk in October, the EU Commissioner for Enlargement and European Neighbourhood Policy Stefan Füle who came to Minsk twice – in July and November, and also the joint visit of German Foreign Minister Guido Westerwelle and his Polish counterpart Radosław Sikorski in November.

The majority of Belarusian political analysts tend to connect these visits of high European officials with the presidential elections in Belarus. The top-level meetings touched upon the issue of the elections in any case. The Lithuanian President, Commissioner Füle, and the Polish and German Ministers during their visits to Minsk spoke about the necessity of fair and transparent elections. Only then, the Belarusian government could hope for more profound relations with the European Union and for financial and technical aid in reforms. Dalia Grybauskaitė met not only with Alexander Lukashenko but also the oppositional candidates for the presidency and called on them to unite. She also mentioned Lukashenko's promise to register all candidates who would gather the necessary number of signatures.³ The aim of Westerwelle and Sikorski's visit was even more transparent – to persuade the Belarusian President into holding transparent elections in exchange for assistance in economic reforms.

The very fact of such top-level meetings on the eve of the presidential elections signaled the interest of the European Union in further development of relations with Belarus. This interest was even stronger than the fear to be accused of supporting "the last dictator of Europe" just ahead of the elections. The EU interest is clear: using

³ *Grybauskaitė met with the opposition in Minsk* // [Electronic resource] Mode of access: <http://news.tut.by/politics/art201042.html>.

deterioration in the Belarusian-Russian relations to try to solve "the Belarusian problem" and to expand its influence on Minsk. It is quite logical that the mission to convey the European message was given from Germany, which is not only the EU motor, but also has always had a pragmatic attitude towards Belarus. Radosław Sikorski's participation can be explained by the fact that Poland presides in the European Union next year and it will have to actively advance its initiative, the Eastern Partnership, in which Belarus is one of key elements.

During the visit the main "reward" that Minsk would receive for carrying out democratic elections was announced – EUR 3 billion within three years through miscellaneous EU programs and instruments. On the one hand, this is a considerable sum, commensurable with the sum that Belarus annually received from its allied relations with Russia. But on the other hand, it was not quite clear how this money would be given: in the form of free aid or as loans.

The two Foreign Ministers made an unambiguous statement that the presidency of Alexander Lukashenko can be recognized by the European Union in case he holds fair and democratic elections: "For us it is the quality of the elections that is important rather than the result", said Sikorski. At the same time, the key points were highlighted in such a manner that it was clear that the EU could be satisfied with elections that are simply more democratic than the previous ones (parliamentary elections of 2008). In addition to this "reward" Sikorski added that he had lifted the veto on involvement of Belarus in the EU Northern Dimension, which is a bonus both for Belarus' image and financial plans.

Stefan Füle's second visit that took place on November 15th, was also limited to the elections. The European Commissioner named those spheres where the EU would like to see progress, such as: registration of candidates, creation of territorial commissions, early voting, vote counting, access to mass-media and freedom of assembly.⁴ Mr. Füle also introduced the project of the Joint Interim Plan prepared by the European Commission, and publicly announced that the Plan serves not only as an attempt to overcome the lack of official mutual relations between the EU and Belarus, but it also aims at helping Belarus in reforms and modernization. However, neither Füle nor

⁴ BELAPAN, see: http://belapan.com/archive/2010/11/15/media_eu_fule_europe/

Sikorski mentioned any specific numbers concerning financial assistance.

Despite the quite active exchange of ministerial-level visits, Lukashenka did not visit the EU at all in 2010. Firstly, this can be explained by the absence of such need, given the lack of plans to sign any important international agreements requiring the presence of head of state. Secondly, the visibility of the foreign policy outbreak onto the West had been vividly demonstrated to the Belarusian electorate earlier in 2009. Therefore, the visits of the Lithuanian President, and Foreign Ministers of Germany and Poland to Belarus were sufficient for agitation needs. The Belarusian diplomacy concentrated on practical issues, such as preparation of the thorough grounds for Belarusian-European relations in the form of a basic bilateral agreement, entrance to the European market, and search for additional financial resources.

Still, the Belarusian side did not succeed in realizing its practical aims as much as it had hoped. The problem of allocation of macro financial aid to Belarus of EUR 200 million that had been discussed since autumn 2009 was resolved. Commissioner Füle during his visits to Minsk confirmed the possibility to allocate these means. However, the European Union has apparently linked this assistance to the presidential election in Belarus and its transparent and democratic character as well as the official presentation of the Joint Interim Plan which failed to be negotiated before the earlier stated deadline. In general it is possible to conclude that the European Union during the whole year avoided making decisions about Belarus, waiting for the results of the presidential campaign and their assessment by the OSCE.

All quiet in the Eastern Partnership

The disappointment of the Belarusian authorities by the *Eastern Partnership* program in 2010 led to an attitude towards this initiative as something marginal in relations between Minsk and Brussels. Entering the Eastern Partnership program, the official Minsk was primarily interested in obtaining financial aid, investments, and in realization of joint infrastructural projects. The political constituent of the program was considered as an annoying supplement to the dialogue with Brussels which unfortunately could not be ignored.

The turn towards the West was regarded by the Belarusian authorities only as an exchange of its geopolitical loyalty for financial aid, which prevented the EU from influencing the internal political

situation in the country. However, by the end of 2010 the Belarusian authorities had not succeeded in "capitalizing" on its normalization of relations with the EU and confrontation with the Russian administration. The projects, prepared as far back as at the end of 2009 in the frameworks of the multilateral dimension of the Eastern Partnership, were not considered and the official Minsk did not receive any answer about their fate. At the informal summit of the Eastern Partnership in Sopot (Poland) on May 25th, 2010 Belarusian Foreign Minister Martynov once again called the European Commission to adopt as soon as possible "accurate and transparent regulations" for consideration and further financing of the submitted projects and to fill the whole program with practical contents⁵. He also proposed to create the Forum of the Eastern Development in the frameworks of the Eastern Partnership which would ensure direct dialogue of business structures with partner countries.

The development of the projects in the framework of the Eastern Partnership and their further lobbying catalyzed to a certain extent the cooperation of Belarus with Lithuania and Ukraine. In 2009 – 2010 there were three trilateral working meetings of the Foreign Ministers of the mentioned countries. The last meeting was on September 8th, 2010 in Belarus where it was decided to concentrate on 5 – 7 main projects which would be promoted within the Eastern Partnership program⁶.

On December 13th, in Brussels there was an annual meeting of Foreign Ministers of the member countries of the Eastern Partnership. Sergey Martynov once again pointed out the necessity to expand the practical cooperation within the EaP and to intensify the project component of the program. During the preparation for EaP summit in 2011 the Belarusian side made a suggestion to prepare the recount of the strategic projects of the EaP, to start the Eastern Development Forum, and also to develop the roadmap of EaP activity for the nearest two years⁷. However, as the main aim of the ministerial meeting was to review current activity and to assess progress made in the

⁵ Belarus called upon the European Commission to "faster adoption of clear and transparent regulations" of consideration and financing of the EaP projects // [Electronic resource] Mode of access: http://belapan.com/archive/2010/05/25/eu_387543/

⁶ Earlier more than 20 joint regional projects were submitted to the EU.

⁷ Foreign Minister Martynau at a ministerial meeting of the Eastern Partnership see: http://www.mfa.gov.by/en/press/news_mfa/f42e09faab4791fe.html.

implementation of the Eastern Partnership, no important decisions were made.

Euronest casus

Euronest remained an additional stumbling block in the program of the Eastern Partnership for Belarus — the inter-parliamentary dimension which was to include parliamentary deputies of the EU six eastern neighbors and European Parliament representatives. It should be noted that from the very beginning of the creation of this organ there was a problem of illegitimacy of the Belarusian National Assembly in the opinion of the European deputies who refused to recognize the right of the Belarusian deputies to represent Belarus. As an alternative the European Parliament proposed to invite Belarusian opposition and civil society representatives to *Euronest*, which was flatly rejected by the official Minsk, referring to the Prague Declaration according to which *Euronest* should include the representatives of the legislative authority of the partner countries. Additional doubts appear concerning the representation of civil society, which is already presented in a separate institution — the Civil Society Forum.

Throughout the year from time to time information appeared that *Euronest* was about to start its work without the participation of Belarusian officials, which caused a negative reaction from Minsk and further undermined the faith of the countries in bilateral relations. The list of victories of the Belarusian diplomacy should also include the demarche of the parliamentary speakers of six member countries of the EaP organized by Minsk who sent a joint letter to the European Parliament with the request to include the Belarusian Parliament equally to *Euronest*. However, this action did not convince the European parliamentarians and the casus with *Euronest* remained unsolved. Nevertheless, the EaP Inter-Parliamentary Assembly did not gather in autumn without Belarusian representatives as it had been planned earlier. In this case, like in other initiatives, the EU decided to wait for the election results in Belarus.

19.12 as the end of normalization

There is no doubt that the presidential elections of December 19th marked the end of the political year in Belarus, having stopped those internal and foreign policy trends which had been formed since 2008. The European Union as well as other international actors considered

the presidential elections in Belarus as a test of the intentions of the official Minsk in relation to the EU and liberalization of the country as a whole. The European politicians emphasized not once that it was the election campaign and the Belarusian authorities' behavior during it that would be the focal point that would determine the next stage of Belarusian-European relations. It was Lukashenka's good behavior during the campaign and on the election day that the allocation of EUR 3 billion promised by Radosław Sikorski depended on, as well as the beginning of negotiations on the Joint Interim Plan and renewal of full-fledged relations with the European Union as a whole. The elections should have concluded the test period that started in autumn 2008.

The Belarusian side perfectly understood. Therefore it did its best (in the context of the current system) to receive the acknowledgment from the EU and the international community: it allowed the most free election campaign during the last 16 years, was in touch with foreign journalists, ensured unprecedented safety measures for OSCE observers, abstained from criticizing the opposition and the EU. Few observers and analysts had doubts about the positive reaction of Brussels to the Belarusian elections and further improvement of mutual relations. It was these expectations and the sham results that caused a sharply negative reaction of the European Union to the events of December 19th in Minsk.

On December 20th, EU High Representative for Foreign Affairs Catherine Ashton made a statement in which she denounced "the use of violence following the presidential elections in Belarus, in particular the beating and detention of several opposition leaders, including a number of presidential candidates"⁸. The same statements were made by President of the European Parliament Jerzy Buzek, Foreign Ministers of Poland, Germany, Great Britain and other EU member states. After the Foreign Ministers of Germany, Poland, Sweden and the Czech Republic submitted their condemning article about the Belarusian elections to *The New York Times* under the title "Lukashenko the Loser"⁹ it became clear that the brief period of improvement of the relations between Belarus and the EU has ended.

⁸ *EU leaders condemn violence in Belarus following presidential elections* // [Electronic resource] Mode of access: http://www.enpi-info.eu/maineast.php?id=23637&id_type=1.

⁹ "Lukashenko the Loser" // *The New York Times* [Electronic resource] Mode of access: http://www.nytimes.com/2010/12/24/opinion/24iht-edbildt24.html?_r=1

Conclusion

The year 2010 in relations between Belarus and the EU can be called the year of waiting for the presidential elections. Without hoping for cardinal political changes in the country, the European Union, nevertheless, considered the election campaign as a test of seriousness of Alexander Lukashenko's intentions as to cooperation with Brussels. Therefore, no relevant decisions important for Belarus within the Belarusian-European relations throughout the year were made. This fact, in its turn, facilitated the desire of the Belarusian authorities to search for closer relations with Russia, which they, at last, achieved just before the elections.

The European Union returned to the idea of a roadmap facilitating relations with Minsk, reflected in a draft variant of the Joint Interim Plan that however was not presented to the general public and was not approved by the two sides.

The presidential elections, the surge of violence and repression caused a negative reaction of European structures and suspended normalization of relations. Belarusian-European relations were thrown back to where they were in 2006 – 2007. However, judging by the fact that after the elections Belarus appeared in a very inconvenient foreign-policy situation, and also by the fact that the EU has no other strategy as to Belarus except for the policy of pulling-in, it is possible to predict a gradual normalization of relations during 2011.

BELARUS – U.S.: FROM DIALOGUE TO SANCTIONS

Andrey Fyodorov

Summary

In 2010, Belarusian-American relations were hard to define in a few words because the situation before the presidential election changed dramatically after the election. The 'before' period was not something different as compared with the previous year's inactivity. Belarusian top officials met with a group of American businessmen and the outcome was apparently too insignificant to be speculated about. There was a certain progress however after the Belarusian foreign minister met with his American counterpart in early December. But the events of the post-election period not only ruined everything that could take bilateral relations to the next level, but brought them back to the status observed three years ago or even before.

Tendencies:

- *Before December 19:*
 - A shaky balance with faintly visible prospects for improvement;
- *After December 19:*
 - Steep decline of political contacts down to the minimum;
 - Resumption and expansion of the sanctions applied before suspension;
 - Further decline of bilateral economic cooperation, no more backing in international financial institutions;
 - Maintaining of diplomatic representation at the minimum level and threat of severance of relations at any moment.

January-November: Fruitless meetings and minor encounters

The year 2010 was so uneventful — except for the last month, of course — that it is hard to add anything to the history of Belarus-U.S. relations. Nothing special or even noteworthy happened.

Politics. In January, the U.S. House of Representatives' Foreign Affairs Committee introduced a bill on monitoring of Belarus' arms exports. According to the document, the Department of State is to submit annual reports on the amounts and mechanisms of arms exports by the government and enterprises of Belarus, including information about incomes from such transactions and the likely role of the government and enterprises of Russia in these exports. However, as no information about the fate of the bill has been available ever since,

most likely it was regarded non-urgent. Besides, experts believe that Belarus has run out of stocks to supply considerable amounts of weapons, which could seriously affect the situation in this or that region. Therefore, even if the bill would have been passed, no tangible consequences were likely to follow.

In mid-April, Washington's "selective interaction" policy was manifested once again: Belarus was not invited to the nuclear security summit held in the U.S. capital. Alexander Lukashenko called it "brainlessness and stupid inertia." He said he was not going to attend the summit anyway, but, at the same time somewhat illogically grumbled that Russia, Kazakhstan, and other CIS states, which sent delegations to Washington, could have insisted on Belarus' participation.

If there are no actual events to talk about, imagination is often used as a substitute. In the middle of May, the oppositional media claimed that Presidential Administration head Vladimir Makey made a confidential visit to Washington. He allegedly held a series of meetings trying to convince the Americans to reconsider policy toward official Minsk. In exchange, he promised to let the U.S. embassy work at full breath and, more importantly, to open the country for American business and foster bilateral relations to get back on track.

If this had indeed happened, it would be a true sensation. Unfortunately, it was nothing but a newspaper hoax, professionally played, though. Anyway, Belarus' offers were quite definite. It would not be a problem to fulfill the promise, because the Belarusian government had nothing else to offer, actually, without detriment to itself.

Meanwhile, despite all contradictions, Minsk kept sending out signals for reconciliation. Lukashenko's interview to Syrian *Al-Watan* daily in late July is notable in this context. Specifically, the president said "the policy pursued by the Barrack Obama Administration aimed at searching for partners, development of relations based on mutual interests and mutual respect was consonant to our intergovernmental cooperation principles, the multiple-vector approach, integrity, and openness among them." He recommended the White House to employ these principles while shaping its policy toward Belarus. The president emphasized that Belarus had never triggered deterioration of relations with the U.S. but always wanted normalization. Nevertheless, these statements were not seconded with deeds and Washington, which repeatedly stated concern over the situation and urged Belarus to respect democracy and human rights, just did not buy it.

In early November, Assistant Secretary of State for European and Eurasian Affairs Philip Gordon confirmed that the United States would like to have better relations with the authorities of Belarus but the latter should have made certain steps for that. He said the American sanctions could have been lifted in case the situation with democracy and human rights improved. Gordon gave special priority to the forthcoming presidential election. He promised that flawless election would also result in resumption of the U.S. embassy's full functioning in Belarus. "We do not think that absence of an ambassador is the way to maintain contacts with the government," he emphasized.

Deputy Assistant Secretary of State Daniel Russell went to Minsk two weeks later to address problems extensively. He met with Foreign Minister of Belarus Martynov to discuss the entire range of bilateral relations, and also with presidential candidates nominated by political parties and civil society representatives. Following the negotiations, Russell said the opportunities for normalization remained limited. "Our financial and visa sanctions against Belarus remain in full force and effect because no progress in the field of democracy and human rights is observed in the country," he said.

In short, the U.S. suggested the following sequence of events: elections more or less complying with democratic standards — lifting of the sanctions — return of the embassy personnel and subsequent expansion of cooperation on the most relevant matters. However, the Belarusian authorities obstinately refused to take the first step and only released the screws a bit, not improving the uneven conditions for the contenders as a matter of fact. At the same time, the Belarusian government insisted on fulfillment and even over-fulfillment of the terms set by the Americans, and wanted to go further to the next stages.

Economy. The aggravating complications in the interaction with Russia and rapidly growing balance of payment deficit pushed official Minsk to seek economic options in the West. The United States, as the global economic leader, could help Belarus essentially in tackling the pressing problems. Therefore, Belarus made attempts to obtain material aid from its main opponent.

A group of American businessmen visited Belarus March 29 to meet with President Lukashenko and Prime Minister Sidorsky. The hosts promised golden opportunities for the transatlantic business, full-blown support, and the most favorable working conditions. The U.S. embassy in Minsk said it had nothing to do with the visit. One of the diplomats informed that the companies, which delegated their representatives to Belarus, did not address the U.S. government for

assistance in arrangement of the trip. It was private and did not "signal any improvement of relations between the two countries or the human rights situation in Belarus." No information about particular results of the visit was available afterwards.

William Delahunt, Chairman of the U.S. House Subcommittee on Europe and Eurasia within the House of Representatives' Foreign Affairs Committee, went to Minsk in mid-October. He discussed trade, economic, and investment cooperation between Belarus and the U.S. with Premier Sidorsky, chief banker Prokopovich, and Economy Minister Snopkov. He also met with Presidential Administration head Makey.

Sergey Sidorsky expressed his hope for reaching the 2007 figures in the bilateral trade, i.e., as he noted, the volume of mutual trade of over USD 700 million. "Counting on your investments into Belarus, we are ready to privatize our economy with the help of American capital," he said. According to the United States, the amount was much higher (see Table 1). The discrepancy is probably caused by different calculation methods. Anyhow, it is obvious that commodity circulation between the two countries is decreasing drastically. It looks like the sanctions imposed on Belneftekhim state-owned petrochemicals firm by the Treasury Department, which caused such a stir at the time, did not play a pivotal role actually.

Table 1. Belarus–U.S. commodity turnover, *USD mln*¹

Year	Exports	Imports	Total	Trade balance
2006	539.1	74.5	613.6	464.6
2007	1,033.1	101.5	1,134.6	931.5
2008	1,069.9	134.5	1,204.4	935.4
2009	574.0	137.3	711.3	436.7
2010	169.8	115.4	285.2	54.4

We remind that the sanctions were imposed in November 2007 and expanded in March 2008 by adding Polotsk Steklovolokno and Lida Lakokraska to the black list. The ban on the two key subsidiaries of Belneftekhim had been under moratorium since autumn 2008 and the suspension was extended more than once. I.e. the situation has not changed considerably over the past two years, but Belarusian exports to the U.S. shrank 6.3 times, whereas the trade surplus went down 17.3 times.

¹ U. S. Census Bureau, Foreign Trade Division // [Electronic resource] Mode of access: <http://www.census.gov/foreign-trade/balance/c4622.html>.

Considering that political relations did not worsen, it most probably happened because the Americans did not see the business environment in Belarus they got used to. The steps made by the government to foster investment were apparently too small.

December: Hint of thaw and sudden disruption

Over the *first eleven months of the year*, Belarusian-American relations did not suggest any appreciable changes, so it was like "the calm before no wind" on the threshold of the election campaign.

Before December 19. Then changes took place, and they were changes for the better. During the OSCE summit held December 1st in Astana, Hillary Clinton and Sergey Martynov came out with a joint statement. Belarus agreed to eliminate the entire stock of highly enriched uranium by the next nuclear security summit scheduled for 2012. In exchange, the U.S. promised all required technical and financial aid and seconded Belarus' intention to diversify energy sources by constructing a nuclear power plant.

The second part of the statement was even more important. Both governments recognized that improvements on democracy and human rights issues were essential for bilateral relations and prosperity of the Belarusians. The United States expressed hope that the presidential election would meet international standards.

Belarus most likely wanted to use America's concern that nuclear materials could fall into the hands of terrorists, and to show Moscow the willingness to straight things out with its ageold foe. It is also clear that the democracy issue was prompted by Washington. This event looked rather promising. Although the expected democratic transformations were vaguely phrased, the first public contact with a high-ranking official of the U.S. Administration was certainly inspiring.

A group of representatives of U.S. research centers arrived in Belarus shortly after. It is noteworthy that it included persons not known to have any warm feelings toward the Belarusian regime. The visit program was extensive. The experts met with the ministers of foreign affairs and defense, heads of foreign affairs commissions of both chambers of the National Assembly, editors-in-chief of governmental media outlets, TV political observers, a number of state-controlled and pseudo-independent research centers, etc. A talk with Alexander Lukashenko was reserved for later. It was strange however that the regime's opponents were not on the list. That is why nothing is known about the final conclusions of the expert delegation.

Nevertheless, the very fact of such a visit taking place, undreamt-of before, kind of confirmed a certain thaw in relations between the two countries.

December 19 and after. Therefore the "Bloody Sunday" and the events that followed were totally unexpected. They shattered all dreams and hopes, and the United States' reaction was not long in coming. On the next day, the Department of State resolutely condemned the violent incidents on the election day, demanded the release of the arrested persons, and declared non-recognition of the election. The U.S. mission to the OSCE, the Congress Helsinki Commission, and Senators John McCain, Joe Lieberman, and John Kerry seconded the statement.

Hilary Clinton and EU High Representative Catherine Ashton made a joint statement December 23. They urged to release all those in detention, condemned the acts of violence, and highlighted serious problems of the election process and vote count. The politicians emphasized that improvement of relations with the U.S. and EU was not possible without an appreciable progress in the field of democracy and human rights. Although no practical measures were taken by the end of the year, it is clear that Washington will not confine itself to mere generalities.

Conclusion

Belarusian-American relations thus suffered a setback to the status of three years ago, i.e. probably the harshest confrontation. Accordingly, it is time for a policy of sanctions, and they will be toughened. At least the White House will be more persistent pushing Congress, where the Republican Party is much stronger now following the November elections. In particular, the author of the above-mentioned bill on Belarus' arms export monitoring, Ileana Ros-Lehtinen, now heads the Foreign Affairs Committee of the House of Representatives.

It is likely that economy will be in focus this time. It is hard to speak about a strong effect of any restrictions of course, since the direct ties are almost negligible. But Washington has a very strong hold over international financial institutions.

Therefore, remaining solid in its approaches, official Minsk cannot expect credits, which it needs desperately, considering its huge foreign trade deficit.

A large-scale inflow of American business is a utopia now. Besides, the Belarusian authorities will not manage to maintain present living

standards without an economic update, and it is not clear how they intend to do it without aid from the West.

Lastly, the Belarusian regime faces major problems caused by the significant reduction in material aid from Moscow. Russia would only agree to provide investment support if Minsk carried out certain requirements, including those in the political sector.

The Kremlin's goal is to make Belarus its satellite led by a more flexible person. The Belarusian authorities perfectly understand this, but the space for maneuver in the eastern direction has shrunk together with the opportunities to react against this plan. For this reason, it is safe to assume that the Belarusian government will try to reestablish cooperation with the West, including the United States, as soon as possible.

*This article used information from
BelTA, BelaPAN, and Interfax
news agencies.*

POLISH-BELARUSIAN RELATIONS: ANOTHER CRISIS

Kamil Klysinski

Summary

Belarusian-Polish relations in 2010 were dominated by two conflicts despite attempts of reconciliation. Firstly, the main source of misunderstanding is the old conflict around minority interest groups. There has been no sign of compromise so far – the parties are firm in their positions. There were some signs of improvement, but even the April disaster at Smolensk did not change the situation. This great tragedy of Poland and its people was met with deep sympathy in Belarus. Secondly, at the end of the year Poland was uncompromisingly severe in its criticism of the Belarusian regime for returning to the policy of repressions against the opposition. As a result, Belarusian-Polish relations are again at the brink of a severe crisis.

Tendencies:

- Belarusian-Polish relations in 2010 were dominated by two conflicts: the dispute about Polish minority interest groups and after-election events in December 2010; the April tragedy at Smolensk, despite some signs of improvement, did not change the situation;
- At the end of the year Poland criticized the Belarusian regime severely for returning to the policy of repressions against the opposition.

Oppression against activists of the Union of Poles in Belarus headed by Andzelika Borys

In 2005, Belarusian authorities would not recognize the elected chairperson of the Union of Poles in Belarus (UPB) and demanded a new election. Because Andzelika Borys was not controlled by the regime. As a result, already in 2005 there was a new administration elected, under the regime's control. This led to a split in the Polish minority: since then there have been two societies bearing the identical name of *the Union of Poles in Belarus*. The first one, supported by Poland and headed by Andzelika Borys (by Anzelika Orechwo since June 2010), is illegal in Belarus. The other one is officially acknowledged by the Belarusian authorities. Alexander Lukashenko's regime has been oppressing the activists of the illegal UPB for several years: fines, detentions, complications at work, provocations, acts of vandalism, spiteful attacks in state-controlled media, etc. The aim of these meth-

ods is to force the Union's heads to give up their independence: to subordinate to the official UPB and make the members join the pro-regime Union.

Poland's was an active role in renewing the Belarus-EU dialogue, which resulted in significant slackening of oppressive acts over the last two years, creating prerequisites for understanding in this issue, painful for both sides.

In the meantime, in early 2010 the conflict escalated sharply. On January 21, Belarusian police detained several dozen non-official UPB's activists, who were driving from Hrodna to Ivianiec (Minsk region) to prevent the official UPB from occupying the local Polish House. Though the detained were soon released and the authorities did not dare intervene, it was a temporary armistice. Already in early February, Polonica, a company owned by Andzelika Borys that sponsored cultural and educational activities of the independent UPB, received a fine of nearly USD 40 000, which threatened the existence of this business entity. After February 8, the police evicted Andzelika Borys's activists from the Polish House in Ivianiec. Thus the authorities occupied one of the three Houses that were remaining beyond the pro-regime Union's control.

Another episode in the conflict around the minority

The attack against UPB put Warsaw in a difficult situation. On the one hand, Polish diplomats had to decisively denounce these actions. On the other hand, the role of the main Belarus-EU dialogue promoter left little room for hasty and radical actions: the strategic goal was to involve Belarus in ever-closer cooperation with the EU. It was even more important to keep the balance as Belarusian Foreign Minister Sergey Martynov was to visit Poland on February 12.

Warsaw's response to the surge of repression against Andzelika Borys' UPB was an attempt to combine an adequate but sharp reaction to the essential issue and promote the dialogue with Minsk, both within the EU and in bilateral relations. That is why the Polish Foreign Ministry issued a sharp ultimatum to the Belarusian side listing 14 points, in which Polish authorities could help Belarus, in return for more respect for rights of the Polish minority. The list included, among others, the last tranche of the IMF credit, support on the Council of the Baltic Sea States' membership, promotion of Eastern Partnership projects, etc.

At the same time, to promote neighborhood cooperation Poland did not cancel the visit of Sergey Martynov, Belarusian Foreign

Minister. On February 12, he and Foreign Minister Radoslaw Sikorski signed the long-awaited agreement on local border traffic. The Polish opposition and some media severely criticized this agreement and charged the authorities with inexcusable indulgence towards Minsk.

Despite these charges, we should emphasize that Poland was the first among Belarus' neighbors to sign an agreement essential for bordering territories, which must be recognized as a real success in Polish-Belarusian relations. The Polish authorities realized that the best way to solve this perennial conflict was negotiations, and not sanctions or threats.

During his meeting with Alexander Lukashenko in Kyiv Minister Sikorski suggested establishing a special Polish-Belarusian expert panel to elaborate an agreement on the Polish minority in Belarus. The proposal was accepted and soon a combined panel was established, headed by the Polish Foreign Vice-Minister Andrzej Kremer and the Belarusian Commissioner for Religious and Ethnic Affairs Leonid Gulyako. There have been 2 meetings so far, but none of them was fruitful. The only progress so far has been "exchange of views", which means "a complete deadlock" in diplomatic language.

The Belarusian side seems not to have been interested in reaching a compromise when it agreed to establish this panel. Its single goal must have been to slacken the tension on the Polish side by demonstrating willingness to negotiate. Since the very first day of the February crisis the Belarusian authorities denied any fact of repression and restrictions against the Polish minority in Belarus. Any action in this direction was accounted for as a need to enforce the law and protect interests of the only legal UPC headed by Stanislav Semashko. Moreover, responding to complaints from Warsaw, Minsk launched a propaganda counter-offensive to present Andzelika Borys' fellows as a minor group of out-laws and political adventurers who have nothing to do with the real movement of the minority.

At the same time, the Belarusian authorities charged the Polish side with discriminating the activists of the official Union of Poles by banning them from Poland and denying contacts with Polish diplomats and higher authorities' representatives. In this situation, another year was passing under the sign of unsolvable conflict, which has become a classical example of the political stalemate in intergovernmental relations. So, in November, when there was no chance that the February fine of USD 40 000 would be repealed, UPB headed by Anzelika Orechwo submitted documents to register a new company

Kresowija that would be able to take over duties of *Polonica* without financial obligations.

In June, great confusion was caused by the unexpected decision of Andzelika Borys, head of the UPC for many years, to resign from her post. She said it was for purely personal reasons but there were a lot of speculations about probable pressure from the Polish authorities that allegedly wanted to convince the Belarusian authorities to register the illegal Union. There is no evidence for these insinuations. After Ms Borys resigned, Anzelika Orechwo became the acting head of the UPC.

After Smolensk disaster: solidarity despite everything?

When on April, 10 the Polish president Lech Kaczynski and his wife were killed in a plane crash at Smolensk, Belarusian authorities did all their best to help the Polish side: Polish planes were allowed into the Belarusian airspace and landed in Viciebsk so that delegations could get to Smolensk by land. But the flawless practical help was not followed by symbolic gestures typical for international relations, which are sometimes even more important than effective actions. On April 12, two days after the crash, Russia, Lithuania, Latvia and Ukraine declared national mourning. Belarus appeared the only country in the region to stay outside the mainstream and persisted in its position the following days. This provoked a surge of criticism from independent media and opposition; Internet users did not choose their words carefully in their evaluations of the President's actions.

But the worst was Alexander Lukashenko's opinion expressed on April 15, long before the investigation results were announced, when he openly called Lech Kaczynski responsible for the crash. At the same time, Belarusians were very active in offering condolences to their neighbors. People signed books of condolences in Polish diplomatic missions, lighted candles in front of the embassy and consular sections, and spontaneously expressed condolences in private meetings (the author of this article was in Belarus at that time and personally witnessed this).

We must admit that Belarusian services offered great practical help in first days after the crash, but typical for the circumstances symbolic gestures were really missing. The chance to improve Minsk-Warsaw relations, rich in conflicts, was missed. Alexander Lukashenko either did not manage to or did not wish to raise himself above his not always understandable calculations and did not use the paradoxically positive

potential of this great tragedy. Moreover, famous for his political intuition, the Belarusian leader did not see a chance to improve his image in Poland and — broader — in the EU by personal participation in the ceremonial burial of Maria and Lech Kaczynski on April 18 in Krakow. It is difficult to imagine that he would have been barred from entering the country. The only political result of the Smolensk tragedy in Belarusian-Polish relations was Ambassador Henryk Litwin's recall to Warsaw. He substituted Andrzej Kremer, Deputy Minister of Foreign Affairs, who was killed together with other members of the delegation to Katyn.

"Conditional" policy and its failure

The unprecedented pressure from Russia, trying to limit Minsk's independence, forced Alexander Lukashenko to start limited political liberalization before the presidential election on December 19, though the authoritarian regime was not changed essentially. By doing so the Belarusian President sent the West a clear signal that he was interested in cooperation and understanding.

Changes in Minsk's interior policy were noticed in EU capitals, including Warsaw. Polish diplomats made another attempt to be the main figure in the EU-Belarus dialogue. On November 2, 2010, Foreign Minister of RP Radoslaw Sikorski paid his first visit to Minsk in many years. He was accompanied by Guido Westerwelle, Foreign Minister of Germany. During the meeting with President Lukashenko, Mr. Sikorski presented an offer based on the so-called "principle of conditionality", i.e. that contacts and cooperation would increase with development of democratization. To strengthen the signal, the Polish diplomatic leader openly announced that if the election in Belarus were democratic, in the following three years Belarus would receive nearly USD 3 billion of financial assistance within the Eastern partnership and TACIS. Lukashenko assured his foreign guests that December elections would be "even more democratic than the previous ones".

Simultaneously, the Belarusian President met with a group of Polish journalists who interviewed him on the key issues of Belarusian-Polish relations. Despite numerous provisos on both sides, general impression was that a quiet and manipulation-free presidential election would give a new chance for Minsk-Warsaw relations. But the unexpected of the demonstration on December 19 in Minsk destroyed these optimistic hopes. The following days brought news

about repression against opposition, civil activists and independent media. The Belarusian regime reverted to repression, and Poland, being the main promoter of democratization, had to take the position of sharp criticism and call to the EU for serious sanctions. The reaction of Minsk was just a question of time. Thus, in late December, Polish-Belarusian relations came into another round of crisis.

Conclusion

In 2010, just like in previous years, the parties involved did not manage to settle disputes around the UPB. Neither Warsaw nor Minsk want that their possible concessions are perceived as weakness or even surrender. Neither should we forget about stereotypes and gossip. It is true that there is no national discrimination in Belarus. But there is mistrust towards Polish organizations, especially when they are financed from Warsaw, as the UPB headed by Anzelika Orechwo is. Hence, this issue is not expected to be quickly resolved, which will be undermining Polish-Belarusian relations.

While the tension around the UPC is just another round of the perennial conflict, the severe criticism of the repression launched in late 2010 is the beginning a new severe crisis in Belarus-Poland relations. In this situation, the only positive and seemingly lasting achievement of 2010 is signing the agreement on local border traffic. When it comes into force, it might intensify social and economic life of the frontier regions of Poland and Belarus.

BELARUS-UKRAINE: NEW EMPHASES – OPEN OPPORTUNITIES

Gennady Maksak

Summary

In 2010, development of bilateral relations between Belarus and Ukraine was substantially influenced by the change of political elites in Ukraine and involvement of the top echelons of both states in election processes. The beginning of the year was marked by mutual interest of the heads of state in neighborhood matters. The interest shifted to the government level by year end. This can be explained partly by the lack of progress in dealing with sensitive political issues and partly by the lowered degree of politicization of mutual relations following the rapid improvement of the Russian-Ukrainian relations. Despite all preconditions, the chronic issues like the undetermined legal status of the Belarusian-Ukrainian border and beginning of the demarcation process remained unresolved in 2010.

The usual emphasis on economic cooperation enabled to set up system-based frameworks for an upturn of bilateral cooperation and achievement of the pre-crisis sales turnover. Despite the underdeveloped systematic approaches and insignificant volumes, the cooperation in the energy sector has become geostrategic to a certain extent owing to the joint efforts put forth to arrange an alternative route for energy supplies to Belarus through the territory of Ukraine.

The 19 December presidential election in Belarus and Ukraine's decision to second the OSCE Mission's assessment added new parentheses to Minsk-Kyiv relations, which are likely to be shaped up more or less distinctly by mid-2011.

Tendencies:

- The new political elite of Ukraine did not reconsider the Belarusian-Ukrainian agenda leaving the basic plans unchanged;
- Contacts between the two governments were quite stable and fruitful throughout the year that made it possible to concentrate on finding solutions to particular problems, which both countries needed to address;
- In the economic sector, Belarus and Ukraine approached the commodity circulation close to the 2008 pre-recession peak;
- The high hopes for joint participation in EU Eastern Partnership projects deflated due to the EU's undetermined foreign policy in this area;
- Kyiv's decision to use the Odessa-Brody oil main in the direct mode for transportation of Venezuelan oil to Belarusian refineries was a symbolic act displaying a possibility of joint decision making aimed at energy security of the two states and the entire Eastern European region.

New emphases of usual agenda

The events that marked mutual relations build-up in 2009 created a realistic platform for their rethinking and opening of new directions conditioned by geopolitical transformations in the Eastern European region. Resumption of top-level contacts and stepped up completion of the regulatory and legal framework signaled a more pragmatic approach to pressing and vitally important problems waiting to be resolved by both states. In 2009, the Belarusian-Ukrainian political "thaw" had a distinct anti-Russian foundation.

Early in the year 2010, Ukraine and Belarus signed more than 180 bilateral documents including nine interstate, one inter-parliamentary, and 76 intergovernmental ones alongside a number of inter-departmental and inter-regional agreements.

Appreciable progress was achieved in the dialog with the Viktor Yushchenko Administration in 2009. When oppositional politician Viktor Yanukovich took office in February 2010, Minsk was quite optimistic at first. Lukashenko and Yanukovich spoke over the phone on February 20. Alongside routine congratulations on the election win, the two presidents touched upon matters related to bilateral relations. As soon as February 24 – 25, the president of Belarus made a working visit to Ukraine to attend the ceremony of his counterpart's inauguration and discuss priority matters of mutual concern.

The Belarusian-Ukrainian agenda did not undergo a dramatic change with the coming to power of the new administration in Ukraine. Kyiv still regarded the status of the Belarusian-Ukrainian border as a key point together with infrastructural projects and an upgrade of trade and economic cooperation. It was clear though that the political component of bilateral relations related to the projects launched as part of the European Union's initiatives would be recalibrated substantially in view of the new format of relations between Kyiv and Moscow.

As Belarus was approaching the presidential election scheduled for late 2010, it had to take account of Ukraine's position when thinking over foreign policy priorities. *Firstly*, Minsk was losing an ally amid the heated confrontation with Moscow that obviously narrowed the room for maneuver. *Secondly*, Kyiv was not that eager to play the role of an intermediary between Brussels and Minsk anymore that gave less chance for Ukraine's indulgent opinion of the democratic nature of political processes in the neighboring country.

Against the background of the shifted emphases in the bilateral agenda, the 2009 trend, i.e. quite intensive top-level communications,

was still intensifying in 2010. During the very first meeting between the presidents of Belarus and Ukraine held in February 2010, the parties planned Yanukovich's visit to Belarus in spring. A huge amount of work was done to arrange that visit. In 2009, the presidents mostly focused on joint actions under the Eastern Partnership projects, while in 2010, political negotiations included participation of the Ukrainian military in the parade timed to the 65th anniversary of the Victory in the Great Patriotic War (1941-1945) in Minsk, and participation of Belarusian units in the 9 May parade in Kyiv.

It was symptomatic of the new format of relations that the Belarusian-Ukrainian intergovernmental joint commission for trade and economic cooperation, which was planning on holding a session on April 15 in Kyiv, served as a basis for bilateral communications. The primal questions included stepping up of trade and economic cooperation, trans-border cooperation, and energy projects.

It looked like the arrangements on ratification of the border agreement by Belarus and the consensus-based option of Ukrainian electric energy supplies to Belarus on preferential terms as redemption of Kyiv's debt worked out in 2009 brought the parties closer to resolving the issues. On April 2, the House of Representatives of the National Assembly of Belarus ratified the Belarusian-Ukrainian border agreement, and the Council of the Republic did the same on April 26. It was a significant progress in bringing together both positions on the problem, which had been bothering the two states for a long time.

President of Ukraine Viktor Yanukovich made a working visit to Belarus on April 29 together with a delegation formed of vice premiers and ministers that indicated major importance of the visit for both states. Following the meeting, interdepartmental consultations, and expert discussions, the heads of state presented a plan of joint actions focused on Belarusian-Ukrainian cooperation priorities, the so-called "road map."

However, May saw a malfunction in the well-tuned top level communication mechanism. Lukashenko was going to visit Ukraine in May 2010 to exchange ratifications of the worked out *plan of joint actions*. The visit was cancelled and no univocal official comments followed. Most likely Minsk did not want to make concessions on the issue of the status of the Belarusian-Ukrainian border — a matter of principle for the Belarusian government — after Kyiv reconsidered its position on supporting Belarus in the conflicts with Russia. Ukraine looked at this issue as one of the central problems and protraction of the case on the part of Belarus was rather painful for Yanukovich and his team.

At the same time, representatives of the diplomatic corps voiced the opinion that the presidents of Ukraine and Belarus had already made a strong contribution to development of bilateral relations and the governments should have taken it from there to maintain relations at the tactical level, while the border issue was still at the negotiation stage. The heads of state met twice more by the end of the year during various international events. No joint declarations concerning bilateral cooperation were made, though.

Since May 2010, most of the talks were held at the intergovernmental level. The first vice premiers, Vladimir Semashko and Andrey Klyuev, signed the road map on May 29 in Homiel. Considering that both countries had not drawn up a long-term strategic document to regulate the economic cooperation sector, the road map was kind of a pragmatic step towards each other. Officials said it could help to take the bilateral commodity turnover to the new record-breaking level of USD 7 to 8 billion. Revitalization of mutual trade could be achieved by setting up joint ventures to be engaged in exports to third countries and development of cooperation in such branches of industry as mechanical engineering, transport, and metallurgic engineering.

One of the road map paragraphs determined cooperation in transit of oil through Ukraine and supplies of Belarusian oil products to Ukraine. Given the situation in the region, this provision was a cornerstone of Belarus and Ukraine's energy security.

In April, the first trial delivery of contracted Venezuelan oil — 80,000 out of four million metric tons — was made by sea to a Ukrainian port from where it was transported by railway to the Mazyr refinery in Belarus. On June 12, the Ukrainian Cabinet and the government of Belarus signed the agreement on cooperation in oil transportation to Belarus via Ukraine. From an economic point of view, the amount of Venezuelan oil was insignificant relative to the needs of Belarus' petrochemical industry. But it was a clear and loud political signal that Belarus and Ukraine could unite efforts to actualize supplies diversification strategies.

For Ukraine, this project turned geopolitical rather than just economic when it came to transportation of oil not by railway but through the Odessa — Brody main in direct mode. In August, the Ministry of Transport and Communications of Ukraine approved the use of the Odessa-Brody main in direct mode on the condition that Belarus would guarantee pumping of more than 9 million metric tons of Venezuelan oil per year. As early as late October, Ukraine and

Belarus signed a contract on the trial transportation of oil through the Odessa-Brody pipeline.

The first trial transportation to Belarus was arranged in late November 2010. After doing the math, the parties agreed that the transportation was economically efficient and the pipeline system was ready technically. This project will be continued in 2011, but it is obvious that there is more strategic pragmatism in the energy sector now that affects energy security of the Eastern European region in the context of the present-day threats and challenges.

Officials of Belarusian-Ukrainian institutional departments continued regular meetings. Defense and foreign policy agencies were quite active too.

Ukraine appointed a new ambassador to Belarus in the middle of the year. On June 14, after two months of tenure of appointment, Plenipotentiary Ambassador of Ukraine Roman Bezsmertny presented his credentials to President of Belarus Lukashenko. It is worth noting that Mr. Bezsmertny was appointed ambassador by President Yushchenko when the latter was already vacating his office. His motivation to appoint the former party associate is unclear. It is however symptomatic that neither the new president of Ukraine, nor the foreign minister disputed Yushchenko's decision.

Election processes as an accelerator of bilateral relations policy

Attention should be paid to Belarusian-Ukrainian relations in the context of the presidential election in Belarus in December 2010. Although the election outcome was easy to predict, official Kyiv did not openly declare support for the incumbent president of Belarus, and did not single out any other candidate for the position. If to have a look at the election programs, it would be apparent that the presidential candidates did not pay much attention to Belarus and Ukraine's mutual prospects.

At the same time, official Minsk was very much interested in recognition of the election results by Kyiv as well as CIS monitoring missions invited to oversee the election in Belarus. With this objective in view, the Belarusian government invited representatives of the Communist Party of Ukraine and observers from the border regions of Ukraine. During the briefings held by election commissions on December 20 in the regional centers of Belarus, the election was

expectedly recognized democratic and free considering many aspects including the very procedure of "monitoring."

But the official position of Ukraine was quite different from what the Ukrainian monitoring mission pronounced. On December 21, the Ukrainian Foreign Ministry said Ukraine was concerned over the "inadequate" use of force in relation to the opposition and mass media during the 19 December election and that Ukraine was going to be guided by the election assessment made by international observers delegated by the OSCE.

The 19 December presidential election in Belarus and Ukraine's decision to second the OSCE Mission's assessment added new parentheses to the Minsk-Kyiv relations system, which is likely to be shaped up more or less distinctly by mid-2011.

Economic recovery

In 2010, Ukraine remained one of the major trade partners of Belarus and was the second largest partner in terms of commodity turnover. Efforts of the Belarusian-Ukrainian intergovernmental commission for trade and economic cooperation greatly contributed to this success. The commission held *two* sessions in April and September 2010 to address expansion of bilateral cooperation.

Both states worked hard on the regulatory and legal framework last year (they signed four international economic agreements including the road map), but they still have not developed a strategic contractual basis capable of setting a right vector for economic development in view of the latest global and regional transformations. The *Interstate Program for Long-Term Economic Cooperation between Belarus and Ukraine* in 1999-2008 and the Belarusian-Ukrainian agreement on economic cooperation in 1999-2008 expired in 2008. No new long-term regulatory platform has been offered yet.

Belarus has not ratified the intergovernmental agreement on free trade signed in 2007 that opens the possibility of mutual restrictions aimed at protection of the home markets. After Belarus joined the Customs Union with Russia and Kazakhstan, resolution of this issue was postponed indefinitely. In May 2010, the two governments adopted an action plan focused on cooperation priorities, which is certainly an accomplishment, but this plan is only a mid-term plan.

Formation of the institutional component of trade and economic cooperation between Belarus and Ukraine continued in 2010. An advisory council was established on May 29 in Homiel within the

framework of the 10th Belarusian-Ukrainian Business Council, which sat in session on June 16 – 17 in Vitebsk, following the working meeting between First Vice Premier of Ukraine Klyuev and First Assistant to the Prime Minister of Belarus Semashko.

Owing partly to recovery of the Belarusian and Ukrainian economies and partly to the system measures taken to upgrade trade and economic cooperation, the 2010 commodity exchange amounted to USD 4,439.9 million. The share of Belarus' export reached USD 2,562.3 million and imports stood at 18,776 million with an external surplus of USD 684.7 million.

Dynamics of foreign trade with Ukraine, *USD million*

Year	Commodity turnover	Exports	Imports	Balance
2008	4,893.0	2,777.9	2,115.1	662.8
2009	2,982.5	1,693.1	1,289.4	403.7
2010	4,439.9	2,562.3	1,877.6	684.7

Source: Embassy of the Republic of Belarus in Ukraine

Belarus mostly exported refrigerators and freezers, tractors and truck tractors, ethylene polymers, sugar, butter, tires, plastic containers, metal products, mineral fertilizers, petroleum products, combine harvesters, charred coal and bitumen, hosiery, parts and equipment for automobiles and tractors, organic solvents and thinners, synthetic fibers, commercial motor vehicles, and fish products. Ukraine basically supplied metal products, oilcake, electric energy, sunflower oil, railway cars, corn, pharmaceuticals, parts for railway vehicles, tobacco, chocolate, parts and equipment for automobiles and tractors, equipment for thermal processing of materials, beer, carbonates, accumulators, pressed wood-fiber boards, paper, cardboard, and confectionery products. In 2010, Ukraine delivered 2.94 billion kWh of electric energy (69.7% of the total exports), which was up 40.2% year on year.

Mutual investments remain low as usual. In January-June 2010, the amount of Ukraine's investments in Belarus stood at USD 1.6 million. Experts say the inflow of investments was impeded by meddling of government institutions in management of economic entities, business activity retardation due to the lack of liquid assets, and insufficient number of country offices opened by Ukrainian banks in Belarus and vice versa.

Belarus continued its task-oriented policy aimed at development of distribution networks in Ukraine and establishment of joint ventures. The *Minsk Tractor Plant*, *Belshina*, and *Keramin* opened trading companies; *BelAZ*, *Gomelsteklo*, *Santa-Bremor*, *Mogotex*, *Milavitsa*, *Conte Spa* and some other Belarusian manufacturers opened subsidiary enterprises and joint ventures. The *Belarusian Agrarian Company* (sugar), *BOC-Ukraine* (oil), and subsidiary *Production Association Belorusneft* opened in Ukraine in 2010.

Cooperation at the level of the chambers of commerce and industry in regions of Belarus and Ukraine is also increasing. Commodity exchange is currently carried out with all regions of Ukraine, the Kyiv, Dnepropetrovsk, Donetsk, and Lvov regions and the city of Kyiv being in the lead.

Conclusion

Development of bilateral relations between Belarus and Ukraine in 2010 was determined by the change of policy approaches in both states. Kyiv was likely to pursue operationalization of benefits in bilateral relations to a greater degree and Minsk basically attempted to define acceptable terms for coexistence under conditions of misalignment or partial matching of principal interests.

The Yanukovich Administration put an emphasis on optimization of the process of finding solutions to long-standing and already traditional cooperation problems. Ukraine is thus less inclined to substitute political declarations for actual result of cooperation. Ukraine's new approach to traditional problems does not always satisfy Minsk. Perhaps that is why the year 2010 saw no breakthroughs in resolution of the border issue, which is sensitive for Ukraine.

Leaving aside the motivation of both countries, it should be acknowledged that the alternative energy supplies way opened owing to joint efforts of the parties was a huge step forward. Successes in this field were less than few before and many attempts were often "extinguished" by Russia, which made advances to one of the countries thus pressurizing another one.

Maintaining high-level contacts and creation of system preconditions for resolutions of traditional problems in bilateral relations in 2010 should be also attributed to successes. It brought commercial and economic activities back to a high level.

Unfortunately, the year 2010 did not become a landmark of Belarusian-Ukrainian cooperation under Eastern Partnership projects

since the European Union paid little attention to this initiative. As a result, most of the promising infrastructural projects did not receive an impetus to develop. The Russian Federation remained a major external factor, which indirectly affected Belarusian-Ukrainian bilateral relations.

The critical assessment made by the OSCE Mission following the December presidential election in Belarus did not instill much hope for a cloudless future of Belarusian-Ukrainian relations. Kyiv took it as a signal to be more cautious in building up political platforms with the participation of Belarus in the near term.

This article uses materials of Belarusian and Ukrainian news agencies and data available on the official websites of the Ministry of Foreign Affairs of Belarus, Ministry of Foreign Affairs of Ukraine, and diplomatic missions.

REGIONAL INTEGRATION IN EASTERN EUROPE

Vladimir Dunaev

Summary

The year 2009 gave rise to optimistic expectations for regional integration headway in Eastern Europe, while 2010 was a year of a strategic pause. Against the background of a thaw in EU-Russia relations, the ideological flatulence in this part of the continent fell off noticeably. The heads of state, who used to claim regional leadership, prefer to distance themselves from this mission now for the benefit of economic pragmatism and political realism. In 2010, the two chief players, which determine the format of Eastern European integration – Poland and Ukraine – were busy with redefining their role in regional processes thus refraining from bilateral projects or promotion of multilateral integration initiatives.

The institutionalized forms of regional cooperation failed to overcome stagnation in 2010. Neither the GUAM Organization for Democracy and Economic Development, nor the Eastern Partnership has achieved visible success. Only the Euro-Asian Oil Transport Corridor Project (EAOTC) based on the Odessa-Brody pipeline was driven from the deadlock under pressure of external circumstances. Although Azerbaijani oil was finally streamed through the main, the prospects of diversification of Caspian hydrocarbons delivery to Europe via the EAOTC remain dim.

Other parts of the meridional energy transport cluster that anchors the regional economic space on the North-South axis saw no appreciable progress. After the success achieved in 2009, the transport-logistics system of Pan-European Transport Corridor IX ran against serious contradictions between the parties to the agreement on the shuttle train Viking.

Tendencies:

- Basic participants in the integration process in Eastern Europe rethink their roles and missions;
- Depoliticization of joint projects succeeds ideological pretentiousness of cooperation;
- Belarusian leaders manifest ambivalence towards the country's involvement in Eastern European integration projects;
- EU takes less interest in integration processes in Eastern Europe; regional cooperation projects are slowed down or suspended.

The process of regionalization in Eastern Europe, where political and economic cooperation largely depends on geopolitical interests of the EU and Russia has become distinct in the past few years. It is not just cooperation for the promotion of internal commerce as it was in EU,

but also a strong effort to come out to the external politico-economical space and use this process to tackle the multidimensional problem of domestic security and development.

Eastern European historic policy

Prosperity of EU members in many respects depends on a transformation of the "ring of friends" around the Union into a zone of peace and stability. This Neighborhood Policy however turned out to be a legitimization of new dialectics of the European space: the family of European nations on the one side and those who should be only treated as neighbors on the other side. The status of such neighbors was given to Ukraine and Lebanon, Belarus and Morocco, Russia and Egypt. As a matter of fact, the new neighborhood concept has proved to be unresponsive to the actual diversity of the European outskirts.

The post-Soviet states of Eastern Europe concerned over their European prospects were not too enthusiastic about the newly engineered "neighbor" identity molded by the template of classic Orientalism. On the other hand, proclamation of the dialectic structure of the new European reality did not dispel suspicions of EU expansionism. Russia reacted to the aggression against its "canonical" territories rather painfully, explaining that among other things it destructs the unity brought forth by the "common, objective history" (Sergey Lavrov). The Eastern Partnership Program irritated Russia even more. The country mobilized resources of transnational historic policy to oppose this new threat.

Unlike politicization of history typical of this region, national historic politics do not rest upon the ideological monopoly of totalitarian regimes anymore. It is a combination of practices aimed at mobilization of administrative and financial resources of a state by certain political forces to indoctrinate historic consciousness and collective memory of the entire society by means of political control over interpretation of history in science and education; attempts to regulate interpretation of historic evidence by using legislative tools; creation of special institutions to supervise archives and publishers.¹ Since the regions are more like virtual communities like nations,

¹ See: *Pro et Contra*. 2009 (May-August). № — 4(46) // [Electronic resource] Mode of access: http://carnegieendowment.org/files/ProEtContra_3.2009_all_screen.pdf.

regional symbolical mobilization by means of historic policies can play a big role in shaping of this space.

Two competing Polish projects of transnational leadership stand against Russia's imperial ambitions in Eastern Europe. A heated discussion of eastern policy paradigms was stirred up in the Polish media in 2009. Bartolomej Sienkiewicz², expert in post-Soviet politics, who works closely with the dominant Civil Platform party, and Foreign Minister of Poland Radosław Sikorski³ published articles that were interpreted as an appeal to admit the failure of Jagiellon imperial ambitions of Poland in the East. The criticism was not only addressed to political competitors from the Law and Justice (Prawo i Sprawiedliwość) party, but also attacked one of the major foreign policy paradigms of the Third Rzecz Pospolita with its cornerstone idea of Poland's responsibility for the future of the eastern neighbors.

The Poles call the Civil Platform's strategy with its all-European security policy prioritized over relations with the eastern neighbors "the policy of the Piasts." This historic image taken from the XIX century politics is supposed to emblemize Poland's involvement in the European project in the East as a counter to imperial ambitions of the Jagiellons⁴.

Apart from other considerations, the Civil Platform called on to change the historic and political paradigm because the Jagiellonian ideology cannot bring the neighboring countries to recognize the historic role of Polish transnational leadership.

The reaction of Ukraine with Viktor Yushchenko in office was the greatest disappointment. Ukrainian historic policy had not modified the Cossack dominion myth in terms of its anti-Polish message. The situation was aggravated even more when Ukraine came out with its own interpretation of the national liberation movement and heroized persons absolutely unacceptable for the Poles. Although Viktor Yanukovich provided an updated evaluation of their legacy last year, Ukraine has not offered any options of harmonization of the regional

² *Wojna w Europie (czas przyszły)* // [Electronic resource] Mode of access: <http://tygodnik.onet.pl/1,31176,druk.html>.

³ Min. Sikorski dla *Gazety*: 1 września – lekcja historii // [Electronic resource] Mode of access: http://wyborcza.pl/1,76842,6978098,Min__Sikorski_dla__Gazety__1_wrzesnia__lekcja_historii.html?fb_xd_fragment#?=&cb=f2fdad030776b48&relation=parent.parent&transport=fragment&type=resize&height=21&width=120.

⁴ See: Dounaev V. Eastern European Historic Policy // *Our Opinion* [Electronic resource] Mode of access: <http://nmnby.eu/news/analytics/2983.html>.

historic policy. The Ukrainian government would like to eliminate historic matters from economic and political approaches to Eastern European affairs.

The Lithuanian historic and political paradigm was not suitable to lay a foundation for regional unity either. The country views the neighbors' attempts to lay claim to the legacy of the Grand Duchy of Lithuania in order to cultivate their own historic myths with a great deal of suspicion that does not help to create a proper image of transnational history. The year 2010 was marked with increased political tension between Lithuania and Poland and the conflict of interpretations of the XX century history is one of the reasons.

The 600th anniversary of the Battle of Grunwald celebrated in 2010 could be used as an occasion to work out a joint variant of Eastern Europe's history. In a meeting held in 2009 in Kyiv, the foreign ministers of Lithuania, Belarus, and Ukraine suggested joint celebrating of this historic event. President Kaczynski wanted the presidents of all states victorious in the Battle of Grunwald to come together so that he could nail down the Jagiellonian version of the regional history. Even Belarusian officials displayed readiness to tailor national history in view of European prospects. Experts noted that the Grunwald mythology even obscured the Great Patriotic War (1941 – 1945) mythology a little in the 2010 official discourse⁵.

All attributes of the anniversary festivities like the Belarusian five-episode film shown on BT channel and commemorative coins were supposed to certify claims of the Belarusians to a decent place in the regional historic myth. The neighbors' muted reaction to this aspiration of official Minsk did not strengthen the Eastern European vector in the historic policy of the Belarusian government.

In 2010, Eastern Europe failed to come closer to coordination of the national mythologies and a harmonized image of transnational history. The year passed in an atmosphere of reappraisal of values and willingness to sacrifice the regional historic policy for political realism and economic pragmatism.

⁵ Грунвальдская бітва ў сучаснай інтэлектуальнай прасторы (The Battle Of Grunwald In The Contemporary Intellectual Space) // *Our Opinion* [Electronic resource] Mode of access: <http://nmnby.eu/news/discussions/2830.html>

Institutionalization

A very low degree of institutionalization is typical of integration processes in the Eastern Europe. Countries of this multinational region cooperate by a moderate scenario which does not require any essential sovereignty cession. The motley, heterogeneous composition of participants in integration projects, which diverge considerably from each other with respect to political choices, economic development, and foreign policy strategies, is changing all the time depending on circumstances.⁶

GUAM formed by Georgia, Ukraine, Azerbaijan, and Moldova in 1997 as an advisory body is the oldest regional organization in Eastern Europe. It transformed into the International Organization for Democracy and Economic Development at the 2006 Kyiv summit⁷.

GUAM entered the year 2010 hearing a disturbing signal coming from Ukraine. President Yanukovich criticized this organization in one of his pre-election speeches. Some political analysts hoped that Ukraine would withdraw from this "anti-Russian bloc" after the presidential election but this failed to materialize. On April, 18, 2010, Foreign Minister of Ukraine Konstantin Grishchenko told Inter TV Channel that it was not about withdrawal but GUAM's economic augmentation. Ukrainian leaders suggested concentrating on transport and energy transit rather than political projects to have real feedback⁸.

⁶ For the most part, this space has so far coincided with the Polish zone of responsibility as it was conceived at different times by the Polish political class during the post-communist era. In 2006 – 2007, the Baltic States and South Caucasus were added to the list of the countries, which have been traditionally in the focus of interest of Poland as a part of former Rzecz Pospolita.

⁷ According to the Charter, GUAM's goals are assertion of democratic values, securing of supremacy of law, and respect for human rights, fostering of sustainable development, bolstering of international and regional security and stability, strengthening of European integration for creation of a common security space, build up of economic and humanitarian cooperation, development of socioeconomic, transport, energy, scientific, technological and humanitarian capacities. Originally, GUAM was supposed to throw an energy supply bridge from Caspian hydrocarbons extraction sites to European markets. Lithuania and Poland were contributing intensively in 2007-2008 at the level of the heads of state. In 2007, Poland initiated an increase in the membership in the project of the Euro-Asian Oil Transportation Corridor with its major element, the Odessa-Brody-Plock-Gdansk main, through involvement of GUAM members and Lithuania.

⁸ *Foreign Minister of Ukraine: Kyiv evaluates effectiveness of GUAM membership* // [Electronic resource] Mode of access: http://analitika.at.ua/news_uchastie_v_guam/2010-04-17-25086.

GUAM still senses depression even after Ukraine's explanations. Despite optimism displayed by the GUAM Secretariat, the summit scheduled for 2010 had to be cancelled. In many respects the crisis is caused by concurrence of the new Polish initiative, the Eastern Partnership, which has a powerful and rich sponsor — the European Union. Even the relatively modest budget of the Eastern Partnership outweighs GUAM's own resources hundredfold.

Besides, the new European program attempts to involve new countries — Armenia and Belarus — in the integration processes in Eastern Europe, which is its advantage. Acting President of Moldova Mihai Ghimpu visited Tbilisi on August 17, 2010 to negotiate Belarus' membership in GUAM with Mikheil Saakashvili. Alexander Lukashenko was invited to Georgia to talk about the suggestion.

Tbilisi thought it was a propitious moment to offer integration given the Belarusian-Russian controversies of that time.⁹ GUAM was hoping for a positive reply from Minsk by the year end. Although Lukashenko did not go to Georgia, a representative of Belarus was expected to take part in the 13th session of the Council of Foreign Ministers on December 2, 2010 in Astana within the framework of the OSCE summit. However, regional cooperation within GUAM is not attractive enough to the Belarusian government. During a press conference held December 20, Lukashenko actually dismissed the idea of such alliance. Belarus prefers to cooperate with organization members separately working on oil transportation projects avoiding the risk to get involved in the joint policy, which the Kremlin might take as hostile.

As regards the EU Eastern Partnership project, it was first introduced in May 2008 as a joint initiative of Poland and Sweden.¹⁰

⁹ *Georgia is going to revitalize GUAM* // [Electronic resource] Mode of access: <http://actualcomment.ru/news/14583/>

¹⁰ Eastern Partnership envisages political and economic rapprochement between six post-Soviet states (Azerbaijan, Armenia, Georgia, Moldova, Ukraine, and Belarus) and the European Union. Although other countries claimed authorship, it is no secret for anyone that Poland is the handler of this new European project. As far back as 2002, the Polish Foreign Ministry offered its variant of the Eastern Dimension of EU Policy. Poland's offers did not find support in Brussels at that time. In 2006-2007, Poland came out with a project on revision of the European Neighborhood Policy insisting on a more differentiated approach to EU's partners. The documents entitled "European Neighbourhood Policy — Eastern Dimension" and "EU-Ukraine Relations, Polish Proposals" asserted the right of the eastern neighbors of Poland of the future integration into united Europe, as against the countries of

In 2010, the parties engaged in *seventeen* projects and a number of fundamental initiatives aimed at arrangement of the member countries' teamwork.

Around € 250 million will be allocated from the budget of the European Neighborhood and Partnership Instrument to foster multilateral cooperation in 2010–2013. In addition, the European Investment Bank has launched the *Eastern Partners Facility* with € 1.5 billion intended for investment into the partner countries supplementing the old external mandate of the European Investment Bank for Eastern European region (€ 3.7 billion). Belarus however failed to access the bank's resources in 2010 that limits its opportunities as a partner in bilateral projects but motivates to participate in multilateral regional cooperation.

Belarus was initially supposed to enter the Eastern Partnership as an associate participant. The country remains the only partner, which is not allowed to fully participate in the European Neighborhood Program for political reasons. The agreement on partnership and cooperation signed by EU and Belarus in 1995 has not been ratified and has not taken effect due to violation of fundamental democratic rights and liberties in the country. While the agreement is not ratified, Belarus is unable to obtain the status of a full partner of the European Neighborhood Program and, consequently, it has no access to all Eastern Partnership programs.

From the point of view of international regional policy, it means that Belarus has to focus on joint projects with the neighboring countries. Alongside cross-border cooperation projects under the neighborhood programs (Baltic Sea Region, Latvia-Lithuania-Belarus, Poland-Ukraine-Belarus), in late 2009, Belarus, Lithuania, and Ukraine applied to the EU for financing of *nineteen* projects in the sectors of integrated border management, transport, energy, and culture with

North Africa, which will always remain just neighbors of the European Union. For this reason, EU should have been more fair-minded when distributing attention and funds between the southern and eastern political vectors, the Poles said hoping for European sponsorship for their traditional policy in the East. The Eastern Partnership was supposed to back up Poland's regional leadership in the East of Europe. They reconsidered priorities later, but the new European project still had significant integration potential for the region. Above all, contributing to regional integration is a system of multilateral cooperation for creation of free trade zones and implementation of projects in four thematic platforms: democracy, good governance and stability; economic integration and convergence with EU policies; energy security; contacts between people.

an emphasis on strategic offers concerning development of the meridional energy transport cluster and Euro-Asian Oil Transport Corridor, which determine the entire Eastern European posture.

The hopes that these projects would be launched in 2010 faded quickly. In a meeting held September 8 in Minsk, the foreign ministers of the said countries had to get back to their application following the preliminary examination conducted by the European Commission. The ministers voiced hope that four to seven projects of the Three will be examined during the 13 December session of the Eastern Partnership foreign ministers. They did not clear up the projects' future, though.

The "Kyiv Initiative" of the Eastern Partnership — a mechanism of trilateral cooperation between Poland, Ukraine, and Belarus in the field of security policy, energy, ecology, etc. initiated by the three presidents in 2009 — was put on strategic pause in 2010. This regional cooperation project was stopped in its tracks apparently because a new president took office in Ukraine.

The Eastern Partnership's Parliamentary Assembly (*Euronest*) could not get to work in 2010 due to disagreements over Belarus' participation format. So, the institutionalized forms of regional cooperation in Eastern Europe were not too efficient last year. It concerns both GUAM and the EU Eastern Partnership, which has not been given a status of organization yet.

Regional energy transport cluster

Formation of a high-capacity energy transport cluster in this geographical region spurs the national elites to look for strategies and tactics of regional cooperation and integration. Development of the Trans-European and international transport corridors, first of all the 9th intermodal corridor with a possible entrance to the Asian market via Caucasus (*Transport Corridor Europe-Caucasus-Asia, TRACECA*), creation of the Baltic-Black Sea oil trunk pipeline, and projects in the gas transport sector pave the way for a joint strategy of integration into the global economic environment. For the first time, the meridional mains and macro-logistic systems, which maintain transportation of energy resources and commodities on the North-South axis, give the involved countries a huge integration resource (they used to be poorly integrated due to orientation to the West-East axis).

The meridional projects and intensified economic and political interaction between the Eastern European countries can be regarded

as an attempt to create a space for survival under pressure of stiffened competition on the part of alternative energy transportation projects initiated by Russia, which wants to diminish dependence on Eastern European transit countries. These challenges have already resulted in appreciable rapprochement and strategic cooperation between the countries in the East of Europe.

In this region, diversification of sources and ways of hydrocarbons delivery to Europe rests upon the Euro-Asian Oil Transportation Corridor (EAOTC), mostly the Odessa-Brody-Plock-Gdansk main with several routes of transportation of natural and liquefied gas within the framework of the Southern Gas Corridor.

The idea of the EAOTC came in mid-1990s as a project on delivery of Caspian oil to Western and Central Europe, bypassing the congested Bosphorus. Ukraine managed to lay a pipeline from Odessa to Brody near its western border by its own forces, but failed to achieve the designed capacity after it lost the competitive battle for Azerbaijani hydrocarbons to the Baku-Tbilisi-Jeihan main. In 2004 – 2010 the Ukrainian pipeline transported Russian oil from Samara to Odessa in a reverse regime. For all those years, the plan to get back to the original transportation route from South to the North has been connected with completion of the Polish section of the pipeline up to Plock.

The governments of Ukraine and Poland and the European Commission signed a joint declaration of support for the EAOTC project on May 23, 2003 in Brussels. In 2007, the national oil transportation companies of Azerbaijan, Georgia, and Lithuania entered Sarmatia joint venture established by Poland and Ukraine to develop the EAOTC. The feasibility report approved on April, 24, 2009¹¹ was supposed to be presented in early 2010 at the Batumi energy summit to give new urgency to one of the region's major economic projects.

Leaders of twelve countries including the presidents of Georgia, Azerbaijan, Ukraine, and Poland were expected to attend the 5th energy summit on January 14, 2010. A representative of Belarus was invited to a forum of the kind for the first time. However, none of the presidents could come for various reasons and the summit was postponed. The year came to an end but the summit remained ink on

¹¹ Conclusions of the EAOTC feasibility report confirmed the technical capability and cost-effectiveness of transportation of up to 40 million metric tons through the EAOTC. Most importantly, experts predicted volumes of Caspian oil sufficient for profitable functioning of the corridor at the branching in Brody towards Poland, Slovakia, the Czech Republic, Austria, Belarus, and to the Baltic States in 2013 – 2015.

paper.¹² Apart from other minor issues, everyone was waiting for Ukraine's new energy strategies following the presidential election.

Changes were brought about but the scenario was totally different to what Sarmatia stockholders were planning on. The new president of Ukraine had to resuscitate the EAOTC after Russia stopped oil deliveries through Brody – Odessa main in the middle of the year and partly drained the southern string of *Druzhba* (Friendship) pipeline. Belarus suggested filling the pipe with oil from Venezuela. The Ukrainian government would probably not dare to reorient the Odessa-Brody main, if it had not been for the frustrated agreement with Russia on guaranteed oil transit through Ukraine.

Putin left Kyiv October 27, 2010 without a mutually acceptable solution. President of Azerbaijan Ilham Aliyev made an official visit to Ukraine on the same day. He confirmed Azerbaijan's interest in transit of hydrocarbons through Ukraine. Earlier, on October 18, President of Venezuela Hugo Chavez, who visited Russia and Belarus shortly before, assured his Ukrainian counterpart that Venezuela would supply enough oil to Belarus to maintain economically viable operation of the Odessa-Brody pipeline. Chavez tried to set Yanukovich at ease regarding Russian's reaction to operating the pipeline in reverse regime. During a joint press conference, he said he reached a consensus with Vladimir Putin. So the Ukrainians finally agreed to a test delivery of oil to the Mazyr refinery in Belarus through Odessa-Brody pipeline and the southern string of Friendship on November 20 – 23, 2010.

But the EAOTC could only be brought back to life using the Ukrainian pipe by pumping Caspian hydrocarbons bypassing Turkish straits. Therefore, Belarus' intention to substitute South American oil with Azerbaijani or other Caspian oil by a swap scheme was of vital importance. Although the guaranteed volume of hydrocarbons transported to Belarus in 2011 was considerably smaller than originally planned, the turn of the pipe from the South to the North made it possible to connect consumers of Azeri Light in the Czech Republic, Slovakia, and Hungary. *Ukrtransnafta* also talked about interest of Polish refineries to Azerbaijani light crude oil specifically beneficial considering high prices of the raw material.

¹² On the one hand, everyone was waiting for an opinion of the new government of Ukraine on the plans for oil transit diversification. On the other hand, stalling of regional energy projects, in particular the redirection of the Odessa-Brody pipeline, made debates on any other undertakings premature.

Construction of the Brody-Plock-Gdansk string of the EAOTC has been frozen. In 2009, Poland suggested postponing the project launch due to the financial and economic recession. Nevertheless, Poland keeps the EAOTC on the list of high priority projects under the Infrastructure and Environment Operational Program. Russia's declining interest in Friendship pipeline makes it possible to shorten the EAOTC project dates using the available pipeline transportation system¹³.

Sergey Skripka, Director General of Sarmatia consortium, says the route used to deliver oil to Belarus can be also used to transport oil from the Caspian region to Poland. It is 400 kilometers longer than the planned one, but there is no need to wait until the pipeline coming from Brody is laid. The feasibility report says completion of the Odessa-Brody-Plock-Gdansk oil transportation system will cost USD2 to 8 billion, and sources of financing have not been determined yet, but the Belarusian route could simplify creation of the EAOTC and make it considerably cheaper.

Belarus was assigned a key point in this system of coordinates. For the first time, Minsk could exercise influence upon energy security of the Eastern European region essentially by making a strategic choice. Belarus and its neighbors could obtain effective leverage to withstand Russia's oil transit blackmail and at the same time have an energy transport cluster to influence processes of economic integration in the area from the Black Sea to the Baltic Sea. However, political and economic decisions of the Belarusian authorities made in late 2010 regarding ratification of the Customs Union agreements and the consequences it faced following the 19 December events made this opportunity quite unrealistic.

The ongoing formation of the meridional energy transportation cluster in Eastern Europe is not only a series of ambitious projects, such as the Euro-Asian Oil Transportation Corridor, but also already successful elements of the Baltic-Black Sea logistics system. This transportation-logistics complex is based on European Transport Corridor IX. The North-South concept of this corridor was proposed by the EU ministers of transport in 1993 in Helsinki. This corridor is supposed to connect the North and the South of Europe¹⁴.

¹³ See: Odessa – Brody: History And Outlook // *Our Opinion* [Electronic resource] Mode of access: <http://nmnby.eu/news/analytics/2779.html>.

¹⁴ *Viking To Run Against Competitor – ZUBR* [У «Викинга» появился конкурент – ZUBR] // [Electronic resource] Mode of access: http://www.zautra.by/art.php?sn_nid=5415&sn_cat=7.

The shuttle train Viking is a symbol of effective development of the logistics capacities of Transport Corridor IX. The train intended for railing of large goods vehicles and cargo containers started hauling from Klaipeda to Odessa and back in 2003. The EU Transport Commission distinguished the Viking as the best European project of 2009. In 2010, the train transported 10% more cargoes year on year (41804 TEU).

The festive mood was however clouded last year when Lithuania criticized their Ukrainian partners. In advance of Viktor Yanukovich's visit to Lithuania, Ambassador to Ukraine Petras Vaitiekunas said it seemed that Ukraine was standing aback from the project: the Viking carried 98% of cargoes between Lithuania and Belarus, and Ukraine's share only constituted 2%. This point was among major issues negotiated October 14, 2010 during the visit of the Ukrainian president to Vilnius.¹⁵

In 2010, President of Lithuania Dalia Grybauskaitė made another attempt to hook up the Turkish direction to the regional route and officially suggested Turkey joining the trilateral agreement between Lithuania, Belarus, and Ukraine.¹⁶

Transport Corridor IX could cover a huge and rapidly developing economic space reaching Western China. EU experts persistently recommended Belarus to consider joining the international project of the Transport Corridor Europe-Caucasus-Asia (*TRACECA*) backstopped by the European Union. Belarus remains the only Eastern Partnership member, which has not been involved in this project. In turn, Belarus, Lithuania, and Ukraine entertained fallacious hopes for financial support needed to implement their transportation-logistics projects within the framework of Eastern Partnership programs like construction of the Vilnius-Minsk-Kyiv highway and development of the Viking piggyback route. Last year saw no progress in dealing with problems of Transport Corridor IX, though.

¹⁵ Ukraine promised to expedite the procedure of customs clearance of cargoes in the Odessa port from 26 down to four hours. So far, the advantage of fast transportation from Klaipeda to Odessa in 56 hours used to be whittled away by unreasonably long procedures at the customs house in Odessa, which did not encourage freight forwarders. Last year did not kill hopes for intensified cargo traffic through Transport Corridor IX with its inclusion into the larger Europe-Caucasus-Asia transportation system.

¹⁶ The possibility to connect the Viking train route via Poti (Georgia) with *TRACECA*-Europe-Caucasus-Asia international transport corridor has been discussed for some years now. *TRACECA* was devised as a project of restoration of the Silk Route and an alternative to the Trans-Siberian railway.

Conclusion

Integration processes in Eastern Europe have their ups and downs. 2010 was a year of a strategic pause. The countries of the region faced the task to formulate a new strategy of cooperation under the conditions of thawed relations between Russia and Europe. The banner of solidarity against Russia's expansionism became less attractive to the political elites for a while. The countries mostly focus on their own security, political realism, and economic pragmatism.

EU's interest in Eastern European integration projects is fading in the face of challenges from the South that pushes Belarus' neighbors towards an idealess policy of survival by themselves and all together. Given this value system, the Belarusian regime can count on a greater degree of integration into regional economic cooperation processes than before.

BELARUSIAN POLICY IN THE DEVELOPING WORLD IN 2010: CAUTIOUS MONEY-MAKING

Siarhei Bohdan

Summary

In 2010 the internal political situation in Belarus changed, and the Foreign Ministry and other state institutions' activities became more West-oriented. Nevertheless, Belarus' cooperation with the developing world remained at the previous level, which testifies that the country's leadership intends to establish and promote an alternative vector of foreign policy in the form of relations with the developing world, which could function regardless of the state of affairs between Minsk and the West or Russia. Besides preserving allegedly¹ successful dealings with a number of Asian countries with a significant trade surplus (Vietnam, India, Iran, Syria, Egypt), there is another achievement of Belarus' policy in the developing countries: alternative oil deliveries from Venezuela.

Tendencies:

- The country's leadership does not take any serious risks by plunging into geopolitical adventures. They confine themselves to cautious verbal support of their often anti-Western Third World partners (except for China).
- Belarus' "absence" spots on the map of the developing world (as far as its foreign economic relations are concerned) grew even larger: Iraq and Northern Africa practically "dropped out", contacts with Arabic countries of the Persian Gulf and India reduced.

Belarus' contacts with China, Venezuela, and Iran were as intensive as in previous years. In 2010, good relations with Syria and Vietnam became even more intensive. The main objective of Belarusian policy in the third world seems to be money-making. That is why contacts with less solvent countries (Cuba) were limited. At the same time, political contacts did not always correlate with foreign economic relations.

There are a lot of ambiguities with Belarus' foreign economic relations. The most important questions concern their actual profitability, potential (what is going to happen to some relations if the political regime changes in this country) and the actual pattern of

¹ There are no grounded statistical data available; these dealings are not transparent, therefore, we cannot definitely judge if these dealings are successful.

trade. To a number of countries Belarus does not export technologically advanced products, like, say, those of mechanical engineering, but less advanced, like potash fertilizers (this fact is officially acknowledged, particularly concerning Vietnam and China).

China

Relations with the PRC were most diversified among countries of this group. In January, Deputy Foreign Minister Sergey Aleynik visited China; in March, deputy governor of the People's Bank of China Yi Gang came to Belarus; in late March, Vice-President Xi Jinping visited Minsk and a Belarusian parliamentary delegation headed by Chairpersons of both chambers visited China. In late April, Deputy Prime Minister Viktor Burya set out to China. In May, a military delegation headed by Chen Bingde, member of the Central Military Commission, visited Belarus; and Belarusian Minister of Defense set off to China (his visits to China have already become an almost annual tradition). Also in May Minsk hosted a delegation of the National Audit Office of the People's Republic of China.

In June, Minsk welcomed Secretary Mayor of Beijing Guo Jinlong and a delegation to attend the 11th meeting of the Belarusian-Chinese Committee on trade and economic cooperation. In July, a delegation of the Academy of Sciences visited China; in September, Minsk hosted a Chinese parliamentary delegation. During the presidential campaign in early October president Lukashenko paid a short visit to China, the 6th in his presidential term of office.

There is a vivid imbalance in Belarus-China relations. Whereas the Belarusian delegation to Beijing was headed by parliament's chairpersons, the Chinese delegation return visit was led by a Vice Chairperson of the Standing Committee of the National People's Congress. Whereas the Belarusian part of the Committee on trade and economic cooperation is led by the chairperson of the State Control Committee, the Chinese part is headed a Vice Minister of Commerce of China. This Vice Minister is received by Prime Minister Sergey Sidorsky and First Deputy Prime Minister Vladimir Semashko. In relations with China Belarus has cooperation committees on provinces' level, while normally such committees are established at the national level. Anyhow, one should not expect anything different, as the balance of forces is far too uneven. Another thing is that Belarusian officials often pretend that Belarusian-Chinese relations are based on equality.

Relations with China are probably supported by ideological sympathy. The policies of the post-Communist regime are surely more appealing to Belarusian officials and establishment than the more ideologically exotic models of Iran, Libya or Venezuela: they allow Chinese officials to make good money but keep society under control. The last two ambassadors to China were ex-chairpersons of the State Control Committee, which shows the significance of this position. In the 2000s, the function of ambassador to China became a key position in the ambassadorial list (equal to the Ambassador to Moscow or Washington). Having returned to Belarus, former ambassador to China Anatoly Tozik was appointed Deputy Prime Minister in late December, which establishes prerequisites for imitating the Chinese model.

China is in the top ten of Belarus' foreign trade partners by volume of trade, though a trade deficit is prevailing. In 2010, economic relations with China were developing actively: the official information has it that export to China grew by 6.3 times, import from it — by 4.9 times². The bulk — up to half — of Belarusian exports consists of potash fertilizers³. It should be noted separately that the accommodating Belarusian Foreign Ministry follows the Beijing principle of "one China" and adds up trade figures on the PRC, Macao, Hong Kong and Taiwan.

The idea that at least some part of Belaruskali could be sold became the main intrigue of the year: Chinese buyers could be regarded as serious partners. Being a significant player on the world market of potash fertilizers, Belaruskali was excluded from the list of essential national property and prepared for takeover by foreign investors.

The question of best Belarusian enterprises being sold in some form arises in connection with huge credits from China — Belarusian authorities openly express hopes to receive some. The danger is that the sale procedure might be non-transparent. There are property issues in relations with developing countries. For example, it is not clear, what part of JSC "Amkodor" belongs to Nepali businessmen. The procedure of transferring a plot in the historical centre of Minsk to an Omani investor in spring 2010 was also non-transparent.

² Economy and business, TUT.BY: Services trade surplus of Belarus in 2010 was USD 1.7 billion: <http://news.tut.by/economics/215569.html>. Date of access 18 February 2011.

³ On trade and economic cooperation between the Republic of Belarus and the People's Republic of China: <http://www.china.belembassy.org/rus/re-lations/trade/>

Military and military-technical cooperation is an important part of Belarusian-Chinese relations. Unlike other developing countries, China is consistently developing this aspect of relations.

Other Asian countries

In January, Belarus hosted Minister of Justice of **Vietnam** Ha Hung Cuong, in June — president of Vietnam Nguyen Minh Triet and mayor of Hanoi Nguyen The Thao. In October, chairperson of the House of Representatives Vladimir Andreychenko visited Vietnam. In November, Minsk hosted the 8th meeting of the Belarusian-Vietnamese Commission on trade, economic, scientific and technical cooperation, attended by the First Vice Minister of Industry and Trade of Vietnam. In 2010, Belarusian-Vietnamese volume of trade grew up to USD 145.7 mln, with Belarus' export totaling USD 105.5 mln. It is officially acknowledged that "the chief Belarusian export to the SRV is potash fertilizers"⁴.

At the same time, the Belarusian side tried to find other contacts in the region. In first half-year of 2010 Minsk welcomed the Chief of the General Staff of **Laos**. In May, First Deputy Prime Minister Semashko met Minister of Industry of **Indonesia** in Tehran; in June, Deputy Foreign Minister Aleynik set off to Indonesia, Myanmar and Malaysia. The Belarusian Foreign Ministry keeps trying to move national trade into the huge region of Southeast Asia, besides traditionally close Vietnam. In September, Belarus welcomed a delegation of Indonesian businessmen headed by Indonesia's Minister of Trade Mari Elka Pangestu. Nevertheless, these are just first steps of cooperation. In September, during a UN session in New York, Foreign Minister of Belarus Sergey Martynov met his Bangladeshi colleague; in late September, Deputy Foreign Minister Aleynik met the Foreign Minister of Indonesia during a conference of the Non-Aligned Movement.

Serious contacts with **India** were limited: in April the Chief Justice of the Supreme Court of India K. G. Balakrishnan paid a visit to Minsk (he visited Belarus a year before); in late October, a Belarusian delegation led by First Vice-Minister Semashko visited Delhi. The goods turnover between Belarus and India approximated USD 0.5 billion, with a usual significant trade surplus for Belarus.

⁴ See: Trade and Economic Cooperation : <http://www.vietnam.belembassy.org/rus/relations/trade/>.

Relations with **Turkey** after usual foreign-ministry level consultations between Deputy Foreign Ministers in May and parliamentary delegation's visit to Minsk exploded with Belarusian president's visit to Turkey. The purposes and the format of the visit remained unclear, though Lukashenko met with the Turkish president and Prime Minister.

Iran

In late January, Minsk welcomed Esfandiar Rahim Mashaei, head of the Iranian presidential administration and president Ahmadinejad's companion in arms. In February, Belarus' Foreign Minister visited Iran. After that Hamid Behbahani, Minister of Roads and Transport, and Ahmadinejad's former teacher visited Belarus (impeached by the Parliament of Iran in early 2011). In May, Minister of Industries and Mines Aliakbar Mehrabian visited Belarus; and First Deputy Prime Minister Semashko with a delegation of the State Committee for Science and Technologies visited Iran. Minister of Industry Radevich visited Tehran in October. Also in May a Belarusian parliamentary delegation visited Iran; in December, the National Bank Governor Petr Prokopovich visited Tehran.

The Iranian side might be regarding relations with Belarus as a possible way to solve some problems: Iran's position in the world has worsened because of US and recent UN sanctions against it and Belarus could become its "window to the outside world". Though Minsk does not make haste to risk anything for Iran: no suspicious relations with Tehran have been reported.

It is doubtful that there are good reasons for the permanent topic of some oppositional media — an alleged military cooperation. But, as Fars News Agency reported, when a delegation of the State Committee for Science and Technologies was visiting Iran, the sides negotiated common PhD programs on military management and control. Another scandal broke out about alleged deliveries to Iran of S-300 missile systems. This topic arises every year and each time it turns out to be a fake. This time the scandal, triggered by Fars in late August, was probably caused by interior political struggle in Iran. Originally, Fars did not report any deliveries at all; the news was a slip of the tongue by the Iranian Associated Press correspondent.

Iranian projects in Belarus have not been remarkably successful. Many of them are located in Homiel region, and most of them are still in the organizational stage. In particular, the project of Samand car production near Minsk still remained obscure in 2010.

It was announced in May that in the second half of 2010 Lukashenko would visit Iran to launch an oilfield allocated to Belarus and to negotiate oil delivery to Belarusian oil refineries. In the end, nothing happened⁵. Some problems might have been caused by the peculiarities of the Iranian state machinery, or the faction structure of Iranian politics, or even the Iranian state itself.

In 2010, the goal set in the early 2000s — to bring bilateral trade up to USD 100 mln — was reached. The trade turnover totaled USD 104.8 mln, with Belarusian export being 97.2 mln. The big trade surplus in relations with Iran is a positive point in the general negative picture of Belarus' total trade deficit. To put it formally, it is a big success, but we need to point out once again — economic relations with Iran are much less intensive than political contacts. This political commitment may negatively influence the economic relations in the future, especially if any shift occurs in Iranian politics.

Arab countries

Syria was a key partner in this region. A parliamentary delegation visited Syria in January and Oman in March. In late April, Damascus hosted a meeting of the Commission for military and technical cooperation. In May, Belarus welcomed Minister of Education of Oman, in June the Foreign Minister of Belarus set off to Syria and Lebanon. In June, Minsk received Speaker of the People's Assembly Mahmoud al-Abrash; in July, during the 3rd World Conference of Speakers of Parliament, Chairperson of the House of Representatives of Belarus met with his Lebanese and Bahraini colleagues.

In late July, the Syrian president visited Belarus. The Syrian side seems to be more interested in geopolitical games than the Belarusian one. That is why Lukashenko was very reserved in commenting the heavy-loaded statement of the Syrian leader: "I assume that relations we are establishing today are not relations between countries but between Eastern Europe and Middle East"⁶.

⁵ Sekhovich, V. From Sudan till Iran: Belarus' alternative hydrocarbon history // *Ezhednevnik.by*: http://www.ej.by/economy/2010-06-30/ot_sudana_do_irana_alternativnaya_uglevodorodnaya_.html. Date of access: 15.12.2010.

⁶ Alexander Lukashenko holds talks with President of Syria Bashar al-Assad. 27 July 2010: http://www.syria.belembassy.org/rus/news/-page__m12=1~news__m12=212826

In September, Deputy Foreign Minister Aleynik met with **Omani** Foreign Minister during a conference of the Non-Aligned Movement. A Belarusian-Emirates business forum in Abu Dhabi was held in October; in November, Deputy Foreign Minister Aleynik made a working visit to Syria to participate in the trilateral meeting of Foreign Ministers of Belarus, Syria, and Venezuela. Belarus was obviously underrepresented at the forum, which showed Minsk was not ready for significant geopolitical games that could get Belarus involved in risky situations. At the same time, Belarusian authorities would not give up cooperation with

the opponents of the USA, especially since the annual volume of trade with Syria totals several dozen million dollars, with a surplus for Belarus.

The number of contacts with North African countries reduced to almost zero. Nevertheless, in October (just like in 2009) a Belarusian delegation headed by the Belarusian President's National Security Aide Viktor Lukashenko visited **Libya**. Also, throughout 2010 delegations of MTZ, Belshina, Belneftechim and Bellesbumprom concerns visited this country. The official data about the volume of trade is presented incompletely and inadequately: it is supposed to be minimal. Running an embassy in Libya must be motivated by hopes for future contracts rather than actual relations.

Contacts with **Egypt** were limited: Mamdouh Marei, Egyptian Minister of Justice, visited Minsk in October. We should point out that despite rare contacts, Belarusian-Egyptian economic relations are equal to those with Iran, though the latter are promoted by a strong political will.

Latin America

The primary partner was **Venezuela**. In March, First Deputy Prime Minister Semashko and President's Special Commissions Aide Sheiman set off to Venezuela, just after president Lukashenko personally paid a working visit. Mr. Sheiman visited Latin America — Bolivia, Venezuela, and Ecuador — once more in late June-early July. In November, the Foreign Minister of Venezuela visited Belarus. Also, Venezuelan President Chavez traveled to Belarus for the umpteenth time.

The key issue of the discussions was oil supplies from Venezuela that were launched early in the year. The arrival of Venezuelan oil — despite its limited volume — provoked a negative reaction from Russia. The economic expedience this oil is disputable, but in 2011 and 2012

annual oil supplies to Belarusian oil refineries might be as high as 10 mln tons, said the Venezuelan ambassador.⁷

At the same time the Belarusian side managed to get serious contracts within the modernization campaign launched by Chavez. As a result, Belarusian export to Venezuela in 2010 totaled USD 302.3 mln.

Relations with other countries in the region were much more marginal. In March, President paid his first visit to **Brazil**, but both its format and results remain unclear. In May, Belarus hosted a small delegation of the Brazilian business community. Despite the absence of stable political contacts, the volume of trade between Belarus and Brazil in 2010 totaled USD 862.6 mln, which is more than that of 2009 but still less than the record figure of 2008, when it amounted to USD 1 bln, with a trade surplus for Belarus. Therefore, for the last few years Brazil has been one of Belarus' top ten trade partners among countries outside the CIS.

During the September session of the UN General Assembly Foreign Minister Martynov met with his Bolivian and Nicaraguan colleagues. In September, Belarus also welcomed a Cuban business delegation headed by the Deputy Minister of Foreign Trade and Foreign Investment.

Africa

Africa remained predominantly undiscovered by Belarus. In February, a delegation headed by Deputy Foreign Minister Aleynik visited **Côte d'Ivoire**, **Togo**, and **Mali**. Undoubtedly, the issues of trade and payment security are the most serious question in relations with African countries. One of the schemes to secure African contracts might be the strategy to tie Belarusian trade policy to the Russian one. In early August, a mixed Russian-Belarusian delegation visited **Ghana**, Belarus was represented by Mr. Sheiman. In August, Belarus also welcomed Mamadou Tangara, **Gambian** Minister of Foreign Affairs.

Conclusion

Developing countries remained a remarkable vector of Belarusian foreign policy in 2010. Already in late Soviet times, the share of BSSR

⁷ Belarus and Venezuela are implementing more than 120 agreements and contracts in different spheres of mutual interest 2 February 2011: http://www.venezuela.belembassy.org/rus/news/~page__m12=1-news__m12=247776.

foreign trade with partners outside the Council for Mutual Economic Assistance was nearly 10%. Hence, trade with Asian, African and Latin American countries is a logical continuation of the earlier cooperation. It is difficult to estimate the trade volume as there are no reliable data, but according to official statements, Belarusian trade with Asian and African countries totals USD 3.9 bln⁸ (true, such developed countries as Japan, Israel and South Korea have also been included), i.e. nearly 8% of total Belarusian trade. If we include trade with Latin American countries, we will have grounds to suggest that the volume of trade with developing countries remains at the level of BSSR times.

There are many reasons to suggest that this state of affairs will not change in the near future. At the same time, the year 2010 showed again how shaky the basis of Belarusian policy is towards the majority of Third World partners. The number of partners is limited: a dozen countries.

The most lasting, developed and stable relations are with China, which has been in the first ten of Belarus' foreign economic partners for several years. But these relations are also quite ambiguous: firstly, they might be inadequately perceived by the official Minsk; secondly, they include certain political obligations that make Belarus give up neutrality and adopt politically-loaded and ethically doubtful statements (about events in China itself, Taiwan and Tibet). For example, there is an aggressive statement on the Belarusian embassy to China website: "The Republic of Belarus always supports Chinese initiatives in international organizations; Belarusian authorities have more than once officially supported the "one China" policy, against separatist onslaughts in Tibet"⁹. In return, the official Minsk might be expecting that in response the PRC will support Belarus on the issue of economic sanctions by the USA and other members of the international community (as Beijing already did in April 2008).

Vietnam is another stable partner of Belarus, which has its roots in Soviet times. Relations with other countries should be regarded as shaky rather than stable. In numerous cases big political relations do not lead to the promised economic results (Iran); in others short-term achievements could be nullified if the market situation and political

⁸ *Belarus and countries of Asia and Africa* // Belarus' Interior Ministry website: http://www.mfa.gov.by/bilateral/asia_africa/bel/cc70c5ddc1585b71.html/ Date of access: 18 February, 2011.

⁹ Cooperation in the political sphere: <http://www.china.belembassy.org/rus/relations/>

circumstances unfavorably change after deeper penetration into a given country (Venezuela for example).

At the same time, the Belarusian side avoids any unnecessary geopolitical or ideological involvements in its foreign relations. Minsk's participation in the trilateral meeting of Foreign Ministers of Belarus, Syria and Venezuela was minimal; it has no serious projects with Iran, which could stir a negative reaction from the USA; and establishes strictly pragmatic relations even with the traditional partner — Cuba. All the more careful is the Belarusian government with arms trade: despite all the rumors, no evidence of illegal activities in this sphere has ever been provided.

The main problem of Belarus in the developing world is difficulties to expand traditional markets and a number of partners in the developing world. Undoubtedly, the majority of these countries (Africa and less developed Arab countries) are a problematic option for Belarusian enterprises because of high risks for trade: the Belarusian government cannot provide additional guarantees for contracts there.

But there are still countries, "non-problematic" from the point of view of trade security; that are not covered by Belarusian foreign policy. They are more than promising for economic and, to some extent, political cooperation: South East Asia besides Indo-China, Latin American countries and Pakistan. Anyhow, penetration to these markets is probably hindered due to a number of causes: no country expertise on many nations, lack of qualified specialists, discrepancies in technical characteristics of products as well as absence of established contacts with local partners.

Generally, analyzing the topic is immensely complicated by the fact that more or less full information is unavailable. The Foreign Ministry leaves out some events and contacts from its official releases, in particular, it shuns to present the full picture of the Belarusian trade with all countries; some Belarusian embassies update their news pages once in half a year (e.g. the embassy to Syria) ¹⁰.

¹⁰ <http://www.syria.belembassy.org/>

SOCIETY

CIVIL SOCIETY: HYPERACTIVITY WITH A VIEW TO FUTURE PERFORMANCE

Inna Fedotova, Vitaly Belovsky

Summary

Belarusian civil society is developing in a somewhat ambivalent manner. On the one hand, many independent third sector organizations appeared to be involved in construction of a quasi-civil society's "infrastructure". On the other hand, authentic civil society has made a statement as a social force capable of not only asserting its autonomy or fighting for survival, but also contributing to expansion of civic participation and rendering influence on electoral processes and rapprochement between Belarus and the European Union. Accomplishments of such civil campaigns as Speak the Truth and NGOs' initiatives in the field of legislative policy and the Eastern Partnership program should be highlighted in this context. These initiatives however have not resulted in appreciable breakthroughs when it comes to civil society development and equitable dialog with the government.

Tendencies:

- Growing domestic and international influence of the National Platform of the *Eastern Partnership* Civil Society Forum;
- Accelerating efforts of the authorities and pro-governmental public organizations aimed at creation of a vertical model of interaction between the third sector and the state;
- Ignoring of the third sector's role in the Eastern Partnership program by the government, and then its fruitless attempts to form a Belarusian delegation to the Eastern Partnership Civil Society Forum of pro-governmental public organizations in the second half of the year;
- Clash of concepts of the vertical and horizontal models of interaction between the third sector and the government resulted in occurrence of new rifts in civil society;
- The presidential election largely contributed to political involvement and consolidation of the pro-democratic segment of civil society and its greater influence on "society at large";
- Certain consolidation of a considerable part of civil society over the amendments proposed by experts of independent NGOs in response to the authorities' resistance to the attempts of some third sector organizations to achieve liberalization of the bill on nonprofit organizations.

Overall picture

The third sector — nongovernmental and nonprofit organizations — form the basic structural force of civil society. According to the Ministry of

Justice, as of January 1, 2011, Belarus totaled 2,325 registered public associations, 35 trade unions, 25 unions of public associations, and 99 funds. These are just formal parameters outlining the third sector's institutional framework. As concerns the content, the public sector niche remains a sphere of confrontation of authentic civil society and state-controlled quasi-civil society. The first one is formed of nongovernmental organizations (NGOs), civic initiatives, and other mostly grassroots interest groups initiated by citizens. The second one is formed of state-public and public associations patronized by the authorities.

The political regime presents publicly active organizations of the third sector with a thorny dilemma: either to act autonomously, independently, or surrender and fall under strict control of the state. The first strategy strengthens civil society, which emerges spontaneously through self-organization of individuals, displays of their independent *grassroots* initiatives, and calls for coordination of actions for protection of rights and legitimate interests of stockholders. Such activity however entails a serious risk for NGOs to be brought into direct confrontation with the regime that inevitably leads to political engagement of civil society and probable suppression of disloyal groups.

The second strategy brings the third sector closer to the Soviet "controllable system of interest groups", where public organizations played the role of "driving belts" channeling public efforts into the courses determined by the one-party state. On the one hand, implementation of this strategy results in elimination of budding groups in civil society. On the other hand, it generates simulated forms of civic engagement providing required numerical strength of NGOs and their numerosity, but renders their authentic content noxious and substitutes independent political engagement with mobilization.

The presence of pro-governmental NGOs secures legitimization of the ruling establishment, political mobilization, control over election processes, and helps to establish cooperation with foreign partners. The fragmentary economic liberalization, image-making attempts, and seeking of Belarus' wider participation in EU programs stepped up the use of foreign grants by NGOs. Management of some pro-governmental NGOs regard foreign and, likewise, domestic grants for particular projects (alongside with commerce) as a most feasible strategy for transition to self-financing¹.

¹ For instance, see: Бузовский И. *Форматный неформат* (*Format - No Format* by I. Buzovsky) // [Electronic resource] Mode of access: http://www.belta.by/ru/person/interview/i_497428.html

In 2010, the independent segment of the third sector was still acting under disadvantageous conditions like the preserved procedure of state registration of new NGOs upon approval of the authorities, registration denials, problems that NGOs face when trying to rent office premises, ignoring of NGO's offers and applications by government agencies, and also preservation of section 193.1 of the Criminal Code, which establishes criminal liability for activities on behalf of unregistered associations. Although the pressure upon independent public organizations and initiatives declined a little, it still was very effective. Leaving aside the December events, the authorities came down hard on the Speak the Truth campaign, the Union of Poles in Belarus, and the Union of Belarusian Writers.

In our opinion, among all events of the year 2010 illustrating the current status of Belarusian civil society, the spotlight should be on the efforts of the National Platform of the Eastern Partnership Civil Society Forum and collision with advocates of the all-nation platform idea; the Speak the Truth civic campaign; NGOs' involvement in debates on the bill on nonprofit organizations.

National platform vs. "all-national platform"

Involvement of some leading independent NGOs and initiatives of Belarus in the EU Eastern Partnership Program in 2009 gave a strong impetus to development of civil society in Belarus². In 2010, this process continued with formation and advancement of the National Platform of the Eastern Partnership Civil Society Forum coalition by pro-European organizations of Belarus as a platform for coordination of actions of civil society entities in relation to the Eastern Partnership and a tool for dialogue and cooperation with the authorities.

The year 2010 began with Belarusian NGOs' preparation for the second Eastern Partnership Civil Society Forum (CSF) scheduled for November 18–19 in Berlin. The decision to develop the National Platform was made on January 29 in a meeting between participants in the first Forum and Belarusian civil society stakeholders. A National Platform conference was held in summer (July 5–6). It totaled 150

² See: Водолажская Т. Третий сектор: два варианта ответа на вызовы / *Белорусский ежегодник 2009*. Минск, 2010. С. 143–145. (*The third sector: Two response options to challenges* by Tatyana Vodolazhskaya, in *Belarusian Yearbook 2009*. Minsk, 2010, pp. 143-145).

representatives of 90 public sector organizations. Elaboration of road maps (step-by-step action strategies) for introduction of European standards in the field of the municipal reform, mass media reform, fixed term employment contracts, freedom of conscience, culture, and scientific research was the major point on the agenda. Matters related to education, the youth policy, environmental safety, etc. were added later. Six road maps were completed by the end of 2010.

The right to recommend Belarusian organizations for participation in the second Eastern Partnership CSF in Berlin was exercised during the July conference: 32 out of 88 applicant organizations were put on the final list. The conference suggested the public advisory council (PAC) formed at the Presidential Administration of Belarus in 2009 to consider the Eastern Partnership Program and participation of civil society during one of the next sessions.

In view of the probable socioeconomic benefits of Belarus' participation in the Eastern Partnership, the Belarusian authorities had to turn regard on the third sector's appreciable contribution to this initiative which they had stubbornly ignored.³ At the next session of the public advisory council held in late September 2010, head of Presidential Administration Vladimir Makey said the council had earned enough reputation in Belarusian society to represent its interests at the second Civil Society Forum in Berlin.⁴ On October 22, members of the public advisory council addressed the CSF steering committee expressing "readiness and profound interest in participation in the Forum" and "entering into cooperation with this institution." However, the European Commission had already made up the list of Berlin Forum participants. It is not improbable that some members of the public advisory council could have been invited to the Forum if only their application had been made in time.

The OSCE program entitled "Development of the Potential for Interaction Between State And Non-Governmental Organizations" launched in August 2009 jointly with *CIVICUS* international alliance could be used by the public advisory council as a springboard for coming up to the European level of civil society cooperation. PAC

³ Moreover, due to official Minsk, Brussels expelled the Belarusian third sector (and also the third sector of other member countries of the Eastern Partnership) from the delegation to the negotiations at the intergovernmental level. As a result, Belarusian NGOs lost the official channels of information that covered the projects Belarus offered for implementation under the Eastern Partnership program; See <http://news.tut.by/society/203970.html>.

⁴ See <http://afn.by/news/i/142024>.

member Yury Zagumennov, Chairman of the Board of the NGO SCAF Center, acted as the initiator and head of this project. The *CIVICUS* program methodology used in more than 100 countries all over the world envisaged a study of the Civil Society Index in Belarus⁵ and formation of thematic platforms "for consolidation of civil society and interaction with the state, business, and international communities"⁶.

SCAF offered the following pattern: start with gathering of proposals to be studied by participants in the working groups (platforms) at least twice a year; following the discussions, the working groups are supposed to work out consolidated positions and send all the proposals to the public advisory council at the Presidential Administration and public councils of ministries and agencies. The proposals accepted by consensus should be prioritized.⁷ Members of PAC and relevant councils will undertake to lobby the packages of proposals developed by the platforms in agencies of state jurisdiction.

According to SCAF, in autumn 2010, participants in the OSCE project (including representatives of a number of independent NGOs) created *twelve* thematic civil society platforms for cooperation with the government in the field of education, culture, human rights, social security, business, etc. In order to coordinate actions of the national civil society platforms, it was recommended to create the so-called all-national civil society platform under the auspices of the public advisory council at the earliest opportunity. Speaking of the anticipated benefits of this inter-sector cooperation format, the developers referred to experiences of France where 16 thematic platforms had been acting alongside an all-national civil society platform, a public advisory council communicating with the top echelon, and also councils hosted by relevant ministries and departments.⁸

However, the third sector organizations, which consolidated around the National Platform, did not like the idea to arrange civil society platforms under the aegis of PAC, which actually means

⁵ Ten years earlier, Belarus participated in the pilot *Index* research. The next round of research was conducted in 2005 without Belarus, and in 2010, Belarus was invited to participate in the third round again.

⁶ See: Лашкевич К. *Не расколет ли «Восточное партнёрство» гражданское общество Беларуси?* (*Would the Eastern Partnership split Belarusian civil society?* by K. Lashkevich) // [Electronic resource] Mode of access: <http://news.tut.by/society/203970.html>.

⁷ See: *Виртуальная платформа белорусского гражданского общества* (*Virtual platform of Belarusian civil society*) // [Electronic resource] Mode of access: http://civilsociety.blog.tut.by/?page_id=5.

⁸ Ibid.

patronage on the part of the Presidential Administration. Members of the National Platform believed it would result in a top-down nature of the government-civil society interaction rather than an equitable dialog. The offered pattern determines superiority of the Presidential Administration and public advisory council over the civil society platforms with all ensuing consequences, like removal of certain topics from the agenda of public discussions and political decisions, formation of a fully controllable third sector, and so on.

Participants in the National Platform believe that in the contemporary context, Belarusian civil society would benefit more from the so-called "Scandinavian" (horizontal) model with the focus on cooperation, partnership, and equitable dialog between society and the state, rather than the "French" model. The process of creation of platforms for communication within civil society and with the state is based on interaction mechanisms, i.e. negotiations and inter-connection between the existing networks and platforms. But for this purpose, the framework of the third sector activity, which limits freedom of associations to a considerable extent, should be changed: section 191.1 of the Criminal Code should be abolished; the procedure of registration of NGOs and other nonprofit organizations should be simplified; there should be a regulatory enactment promoting equal cooperation between public associations and the state, etc.

On October 24, 2010, representatives of the National Platform took part in the OSCE project to negotiate fundamentals and approaches to creation of civil society platforms in Belarus. They acted unilaterally for there was no invitation from the organizers. The idea of accelerated generation of a national platform in the current situation stirred up the harshest criticism. In the opinion of the National Platform representatives, the framework conditions for activity of the third sector had not changed. The idea of creation of an all-national platform had no objective grounds. An attempt to actualize it would only reinforce dominance of the state and, we must add, hierarchical structuring of civil society itself, which just cannot be built up as a vertical intrinsically, as National Coordinator of the Forum on Belarus Vladislav Velichko says.⁹

⁹ See: Пульша С. *Третий сектор: Полноправный диалог власти и гражданского общества в нынешней ситуации невозможен* (*The third sector: An equitable dialog between the authorities and civil society is impossible at this junction* by S. Pulsha) // [Electronic resource] Mode of access: <http://news.tut.by/society/202639.html>.

Following the meeting, on October 26, it was stated on behalf of the National Platform that the parties reached understanding that civil society platforms can only emerge being guided by the principles of grassroots self-organization, involvement, transparency, publicity, and responsibility for decisions made. "Initiatives, which do not adopt these principles, would be destructive and hollow, and eliminating the very opportunity of a dialogue between the state and civil society."¹⁰ In order to actualize the idea of a national platform "all stakeholders pursuing development of such platform are to go a long and difficult way to come to mutual understanding, respect for common interests, creation of a widest possible institutional base of relevant organizations and initiatives, practicing of delegation of powers and other democratic mechanisms."¹¹ Representatives of initiatives aimed at creation of civil society platforms supported by the authorities were suggested "to continue the step-by-step discussion and coordination of positions at the expert and public levels."¹²

A national conference attended by more than 250 delegates of NGOs was held November 14 as part of the OSCE project "Development of the Potential for Interaction Between State And Non-Governmental Organizations." Officially, it was arranged to present and review findings of the Civil Society Index research conducted by NOVAK sociological laboratory requested by SCAF Center. The preliminary report of SCAF research project prepared for the conference listed propositions on inter-sector cooperation, upgraded interaction between the public advisory council and nongovernmental organizations, and further development of civil society in Belarus. However, following the research assessment, independent experts pointed out methodological inconsistency of the document. They said the conclusions and propositions did not correspond to the results of opinion polls and phrased the requirements supposed to bring the Civil Society Index research in Belarus to conformity with the *CIVICUS* methodology.¹³

¹⁰ *Заявление участников Национальной платформы ФГО ВП о развитии диалога*. Минск, 2010. 26 октября (*Statement of participants in the National Platform of the Eastern Partnership Civil Society Forum on the dialog progress*. Minsk. October 26, 2010) // [Electronic resource] Mode of access: <http://eurobelarus.info/content/view/4866/21>.

¹¹ See the *Statement*...

¹² Ibid.

¹³ See: Шелест О., Водолажская Т., Силицкий В. *Экспертиза результатов исследования Индекса гражданского общества в Беларуси (Expert exam-*

The conference established that the statement on achievement of common understanding regarding the approaches and concept of civil society platforms of October 26 was mistaking the wish for the reality, and the conflict between the two fundamentally opposite viewpoints on interaction between the third sector and the state ran high again. Yury Zagumennov and his supporters reasoned their adherence to the "French model" referring to the lack of time-honored traditions of grassroots initiatives and dialoging in Belarus, which still need to be developed.¹⁴ Here comes the question, how they are supposed to evolve without an adequate institutional basis and not involving people in the corresponding practice of civic participation? Mr. Velichko is correct saying that advocates of the "French model" lay stress on *what can be done* under the present-day conditions, while those who speak for the "Scandinavian model" concentrate on what *should be done* in the current situation and insist that "the dialogue with the authorities should be established upon proclaimed principles and values"¹⁵.

The choice of an adequate model of national platforms buildup provoked a spirited discussion, and the conference organizers finally took the national platform issue off the table. The third sector representatives failed to agree on the principles and mechanisms of interaction and to allay mutual suspicions and accusations, though. On November 15, representatives of the National Platform addressed Stefan Füle, European Commissioner for Enlargement and Neighborhood Policy, among other things saying that the model of interaction between civil society and the state offered by the public advisory council would result "not in promotion of the dialogue, marginalization of the already operating civil society associations and coalitions, which adhere but to the principles of self-organization, and their dropping out of international processes and social life inside the country"¹⁶.

ination of the findings of the Civil Society Index research in Belarus by O. Shelest, T. Vodolazhskaya, V. Silitsky) // [Electronic resource] Mode of access: http://eurobelarus.info/images/stories/Expert_INGO.pdf.

¹⁴ See: Лашкевич К. *Гражданское общество в Беларуси: война на пути к объединению* (Civil society in Belarus: The war on the way to unity by K. Lashkevich) // [Electronic resource] Mode of access: <http://news.tut.by/society/204936.html>.

¹⁵ Ibid.

¹⁶ Совместное обращение участников Национальной платформы ФГО ВП к еврокомиссару Штефану Фюле. Минск, 2010. 14 ноября (Joint address of the Belarusian third sector representatives — participants in the National

So, Belarus sees two national civil society platforms largely overlapping functionally. One of them has been evolving since early 2010. It represents interests of most NGOs seeking cooperation with EU. Another one came out with its own approaches in autumn 2010 eager to represent interests of entire civil society. The first one stands up for horizontal (network) cooperation between NGOs and equal partnership between the third sector and the state, while the second one prefers a vertical model under the patronage of government institutions.

In such a way, the national platform idea, which was supposed to consolidate civil society around European values and give an impetus to the further development, actually heated up disputes between organizations of the third sector that exposed the deepened split in Belarusian civil society over the social values and regulatory basics. The hope for an equitable dialogue between the public sector and the state also deflated due to the barriers set up by the authorities, mutual distrust, and the lack of experience needed to establish contacts between independent NGOs and government institutions at the national level.

During the second Eastern Partnership Civil Society Forum held November 18 – 19 in Berlin, Belarus was represented basically by organizations of the National Platform. Among 27 public organizations approved by the European Commission for participation in the Berlin Forum, 26 were recommended by the National Platform that can be regarded as a true acknowledgement of the growing political weight of Belarusian pro-European NGOs in the international arena. That fact that representative of EuroBelarus International Consortium Mr. Velichko, a Belarusian, was elected speaker of the Civil Society Forum this time, speaks for itself.¹⁷

The Belarusian idea of road maps offered by nongovernmental organizations to other Eastern Partnership member countries aroused keen interest among participants in the Berlin Forum. However, the 19 December events frustrated the Belarus-EU rapprochement and put the future of the National Platform into question.

Platform of the Eastern Partnership Civil Society Forum – to the EU Commissioner for Enlargement and Neighbourhood Policy Mr. Štefan Füle. Minsk, November 14, 2010) // [Electronic resource] Mode of access: <http://eurobelarus.info/content/view/5706/21/>

¹⁷ Sergey Matskevich (NGO Assembly) was the previous speaker of the Civil Society Forum.

Civic initiatives

The degree of political engagement of civil society goes up once in a while in every country. It usually happens during all sorts of election campaigns. In 2010, such engagement was observed in Belarus during the local and presidential elections. Independent NGOs did not render considerable influence on the election processes, although they put forth efforts to get involved through entering election commissions and monitoring the procedures. If one has a look at the composition of polling station commissions, which undoubtedly plays a key role in vote counting, it becomes obvious that most of those who obtained commission mandates were members of NGOs loyal to the president.

Monitoring of the elections by Human Rights Activists For Free Elections produced much more appreciable results. But the observers were still unable to prove election engineering for the benefit of the incumbent president, as they had insufficient powers to come close to any ballot box.

To our opinion, civil society succeeded the most in greater civic participation and publicizing of the authentic presidential election returns owing to the Speak the Truth campaign launched on February 25, 2010 by Dvizheniye Vperyod (Headway) educational-enlightenment movement assisted by distinguished community leaders. The proclaimed goal of the Speak the Truth campaign was to provide the population with truthful information about the real situation in the country. The campaign started with a series of activists' trips around the country in order to draw attention of the authorities and society to local problems. The activists handed out blank postcards with the Speak the Truth logo. People were invited to use the postcards to address to the Presidential Administration requesting immediate intervention to resolve pressing issues. As a result, the processes of civic self-organization stepped up greatly. For instance, on June 2, Mogilev residents started collecting signatures for renovation of a local automobile road.¹⁸ Publication of the work schedule of individual office receptions at local councils was requested on June 10.¹⁹ A series of actions took place in June in the cities of Brest, Gorky, Orsha, etc.

¹⁸ See <http://zapraudu.info/article/mogilev-nachalsya-sbor-podpisei-za-re-konstruktsiyu-dorogi-foto>.

¹⁹ See <http://zapraudu.info/article/u-mag-leve-aktyv-sty-kampan-kazhy-pradu-n-tsyyaval-zbor-podp-sa>.

Prior to the local elections, leaders of the Speak the Truth campaign sent an analytical bulletin on legal and political problems of the election process to the Central Commission for Elections and Republican Referenda. The bulletin covered amendments to the laws on elections recommended by the European Union and OSCE, and described procedural tricks the authorities resorted to in order to avoid fair and transparent elections. On June 2, near the Zaslavskoye water-storage basin, Speak the Truth leaders arranged a presentation of a collection of articles under the name "100 Faces of Unemployment" focused on the problem of employment in Belarus. The collection tells stories of 100 people, who could not get jobs for a long time.²⁰

On the occasion of the 65th anniversary of the victory in the Great Patriotic War (1941 – 1945), Speak the Truth collected signatures for naming of streets in Minsk and Grodno and an underground station in Minsk after writer and former front-line soldier Vasil Bykau. Around 65,000 signatures were collected in the Belarusian capital to eternalize memory of Bykau. A total of nearly 105,000 signatures were submitted to the Minsk city administration on July 12 for renaming a street in the capital after Bykau. On July 16, the Grodno executive committee received a list of propositions including naming of a city street or square after Vasil Bykau, installation of a commemorative tablet on the house where he lived, and renovation of the Vasil Bykau museum in Grodno. Speak the Truth reported 7,414 signatures collected to support those initiatives.²¹

In the summer, Speak the Truth engaged in politics, turning into the pre-election campaign of its leader, poet and public man Vladimir Neklyayev. On June 2, Neklyayev stated his support for A Million New Jobs For Belarus program announced by Yaroslav Romanchuk, presidential candidate nominated by the United Civic Party (UCP), during the presentation of 100 Faces Of Unemployment collection.²² After that, in a meeting with a private entrepreneur held on July 19, he declared the intention to obtain a delegate's mandate to attend the IV All-Belarusian National Assembly²³, and then stated his presidential ambitions on September 2 in a live interview on Echo of Moscow FM station.²⁴

²⁰ See <http://www.nv-online.info/by/79/300/15109/>

²¹ See <http://www.zapraudu.org/article/grodna-svyatkue-600-goddze-grunvaldskai-b-tvy?lang=eng>.

²² See <http://www.nv-online.info/by/78/211/15062>.

²³ See <http://www.belmarket.by/ru/86/25/6688/>

²⁴ See <http://echo.msk.ru/programs/razvorot/707492-echo>.

By that time, Speak the Truth had already achieved a certain effect. Some apparent shifts in public involvement were observed. By late August 2010, campaign activists organized nearly 80 actions in 33 localities of the country and collected 55,000 signatures to tackle local problems. Over the three months — June through September — the percent of respondents, who answered 'yes' to the question "Do you know anything about the Speak the Truth civic campaign?", was up from 12.5% to 23.5%.²⁵ Besides, as Neklyaeв said during a press conference on the intermediate results, a number of local officials took a friendly attitude to towards the Speak the Truth campaign.²⁶

The authorities' counteraction to Speak the Truth felt even before it entered the political field, means that the movement gathered momentum and exerted strong influence on public opinion. On March 6, law enforcers confiscated 9,000 postcards with the campaign logo from Minsk activists. On March 11, Neklyaeв's online conference hosted by *Borisovskiye Novosti* (Borisov News) newspaper was stopped after the telephone line was disconnected. On April 25, the police broke into the private house where Neklyaeв was meeting with Mazyr city residents. The police claimed they were chasing after illegal drugs dealers. On May 1, the police detained campaign activists, who handed toy balloons over to passers-by in Victory Square of Minsk.

On May 18, law enforcers came to offices of NGOs and private apartments of Speak the Truth activists all over the country.²⁷ On May 19, the police conducted searches in the office of Dvizheniye Vperyod and 24 offices and apartments of campaign activists in Gomel, Brest, Grodno, Mogilev, Bobruisk, Borisov, Soligorsk, and other settlements.

Head of NOVAK Sociological Laboratory Andrey Vardomatsky, former USSR Soviet member Yury Voronezhnev, journalist Alexander Ulityonok, and many activists of political parties and public organizations reported searches in their apartments and offices, confiscation of documents, personal computers, data carriers, and printed materials. Personal money saved for medical treatment was confiscated from political scientist Svetlana Naumova who passed away not long ago. Leader of the campaign Vladimir Neklyaeв, editor-in-chief of *Tovarishch* (*Comrade*) newspaper, member of the Central Bureau of the Fair World party Sergey Voznyak, and

²⁵ See <http://www.iiseps.org/09-10-05.html>.

²⁶ See http://belapan.info/archive/2010/08/28/ru_media_neklyaeв_ph/

²⁷ See http://naviny.by/rubrics/society/2010/05/20/ic_media_infografic_116_3947.

international secretary of the United Civic Party Andrei Dmitriev were detained for three days and released on May 21 with no charges pressed against them.

Leaders of the campaign, representatives of dozens of local and foreign public organizations, and a number of European politicians qualified the persecution of Speak the Truth members as being politically charged. This opinion was stated by European Parliament President Jerzy Buzek, Charge d'Affaires ad interim of the United States to Belarus Mark Boschetti, Polish parliamentarian Jacek Protasiewicz, and representatives of the British embassy (Great Britain was performing functions of European Parliament and FIDH presidency). Nevertheless, on July 29, 2010, the economic court of Minsk sustained the claim of the Minsk city executive committee and pronounced the office rent contract between Dvizheniye Vperyod and Tina Vlati Ltd. void. As a result, Dvizheniye Vperyod's was stripped of registration on October 12. Liquidation of Dvizheniye however did not affect Neklyaev's election campaign in any way.

Vladimir Neklyaev's registration as a presidential candidate enabled Speak the Truth to begin a large-scale pre-election campaign. The second wave of reprisals hit campaign activists during and after the 19 December events. Shortly before the polling ended, Neklyaev was heavily beaten by "unidentified persons" on the way to Kastychnickaja Square, taken to the hospital with brain injury, and then transferred to the KGB pre-trial detention center. Other campaign leaders were held in the KGB jail, under police custody, under home arrest, or released on their own recognizance and indicted later.

Assessing the Speak the Truth campaign, it should be noted that an independent presidential candidate popularized himself by means of a preliminary, mass civil campaign in Belarusian regions for the first time in the history of elections in Belarus, which is an outstanding achievement per se.

The last week and a half of December saw consolidation of the democratic part of the third sector and individuals around the campaign of solidarity with those in detention and victims of reprisals that followed the 19–20 December crackdown on the opposition. Many participants in the protest rally were fined or sentenced to administrative arrests, which entailed a series of pickets and other actions of solidarity. On December 21, the Minsk office of the Belarusian Popular Front started the action on gathering of clothes and food intended for the detained, and fundraising to pay lawyers'

fees and court fines.²⁸ Independent media outlets informed people of the possible ways to help the jailed protesters and gave instructions on how to behave during questioning as witnesses and suspects. Zmagarka blog moderated by Tatsiana Elavaya was used for a civic investigation into the events of December 19.

In spite of the threat of persecution, independent public organizations came out with a principled opinion concerning the authorities' actions on the election day. On December 24, representatives of 27 human rights, environmental, and educational NGOs signed a joint appeal of the National Platform of the Civil Society Forum to the Eastern Partnership program, in which they condemned the brutality against the protesters on December 19 and urged the authorities to release all former presidential candidates and their supporters from custody and stop politically motivated persecution.²⁹ A similar appeal was addressed to the European Union and the governments of EU member countries on January 6, 2011. Belarusian civil society organizations called on forming an international commission for a transparent and unbiased investigation of the 19–20 December events and bringing the real offenders to responsibility.³⁰

Bill on nonprofit organizations

The Constitution and Civil Code regulate a large variety of activities nongovernmental institutions are engaged in, thus letting them function being guided by the principle "everything which is not forbidden is allowed". In an effort to bridle undesirable initiatives and reinforce control over public self-organization processes, in early 2010, the president ordered the government to draft a bill on nonprofit organizations by the end of 2010. The Ministry of Justice and the National Centre of Legislation and Legal Research worked on the bill by collaborative efforts. Although the Assembly of

²⁸ See <http://www.belaruspartisan.org/bp-forte/?newsPage=0&news=73514&backPage=19&page=100>.

²⁹ See http://belapan.com/archive/2010/12/24/eu_438037.

³⁰ *Обращение Национальной платформы Форума гражданского общества программы «Восточное партнёрство»*. Минск, 2011. 6 января (*Statement of participants in the National Platform of the Eastern Partnership Civil Society Forum*. Minsk. January 6, 2011) // [Electronic resource] Mode of access: <http://www.eap-csf.eu/ru/news-events/news/joint-address-of-the-national-platform-of-the-eastern-partnership-civil-society-forum>.

Democratic Nongovernmental Organizations attempted to involve community representatives in elaboration of the bill, the developers in charge rejected contribution of independent experts. The general public was only allowed to take part in discussion of the new law at the completion stage.

On December 23, the Ministry of Justice hosted a round table session to discuss the prepared bill. Only around 40 representatives of NGOs selected by the Ministry of Justice were admitted.³¹ The others were turned down because "the seats were too few." It was naive to expect profound debates as there was no text of the bill on the table. Nonetheless, government officials cleared up some points. For instance, Viktor Guminsky, Vice Speaker of the House of Representatives of the National Assembly, said the registration-upon-authorization procedure should have been maintained because there were certain "destructive nonprofit organizations"³². He was seconded by Minister of Justice Igor Tushinsky. Both of them voiced concern over activity of "destructive sects" and "destructive NPOs" and assumed the government's impregnable position towards nonprofit organizations: registration upon approval, strict control, and no other options.³³

In response, on December 27, 2010, the Center for Legal Transformation initiated another round table session for independent NGOs. Participants in the "alternative" session planned joint actions and compiled a list of proposals pursuing interests of various NGOs and NGO associations.

In the opinion of the NGO Assembly working group, the new bill tightens governmental agencies' control over activities of public organizations. It enshrines the principle of registration upon approval for all nonprofit organizations, including those exempted from this procedure at the time. The bill introduces the notion of a conflict of interests in relation to NPOs and bans creation of establishments by persons, who acted as founders of public associations liquidated through a court proceeding. Expert Y. Chausov says if a public association founder stopped being its member long before liquidation,

³¹ http://naviny.by/rubrics/society/2010/12/29/ic_articles_116_171861/

³² Новикова Т. *Будущее третьего сектора государство решает за закрытыми дверями* (*The government determines the future of the third sector behind closed doors* by T. Novikova) // [Electronic resource] Mode of access: http://naviny.by/rubrics/society/2010/12/29/ic_articles_116_171861.

³³ See <http://www.regnum.ru/news/1361883.html>.

he or she would be deprived of certain rights anyway regardless of what the founder had done personally.³⁴ Therefore, civil society representatives want the regulatory and restrictive provisions to be replaced with those aimed at improving of conditions for nonprofit organizations. Specifically, they suggest forming public councils in governmental agencies, creation of a social mandate institution, and the status of socially relevant organization.³⁵

The Center for Legal Transformation and the Foundation for Legal Technologies Development addressed the Ministry of Justice of Belarus and the National Centre of Legislation and Legal Research with letters and recommendations produced during expert meetings, round tables, and discussions of the Google Group. Following the debates on the bill held by the expert community and propositions made by a number of organizations, experts of the NGO Assembly and the Center for Legal Transformation worked out a joint address of Belarusian NGOs and call on all Belarusian nonprofit organizations to sign the document.

In a result, the address signed by authorized representative of 110 nonprofit organizations (270,000 people in total) was submitted to the lower chamber of the parliament and the Council of Ministers of Belarus on March 9, 2011. This mass action was definitely an unequalled case of joined efforts to promote the interests of Belarusian NGOs. The organizers hope for future public hearings on the legal regulation of public associations' activities prior to consideration of the bill in the first reading.

Conclusion

In 2010, Belarusian civil society was developing in an adverse environment withstanding the continuous pressure on the independent third sector and strenuous efforts to push it out to the periphery and replace it with loyal entities. One more attempt of the government to streamline civil society's undertakings to achieve a desired effect made this time upon the pretext of Belarus' participation in the EU and OSCE programs was unsuccessful. State-controlled

³⁴ Чаусов Ю. Эксперт: Проект закона «О некоммерческих организациях» не решит проблем гражданского общества (*Expert: The draft bill on nonprofit organization will not resolve problems of civil society by Y. Chausov*) // [Electronic resource] Mode of access: <http://news.tut.by/society/217552.html>.

³⁵ Ibid.

public organizations tried to take advantage of participation in international projects to actualize the vertical model of interaction between the state and civil society, but they encountered determined resistance of independent third sector organizations.

At the same time, activity of the Belarusian third sector in 2010 did not render essential influence on formation of mass civil society. *Firstly*, a significant part of the Belarusian "big society" was not motivated enough for active civic participation and took little interest in alternative political forces capable of political system democratization. *Secondly*, state policy — from combating crime and elimination of unemployment to support for sports, young families, and talented youngsters — aims at making citizens dependent on the state as much as possible, and to prevent the societal and political impact that independent civic and political institutions may create.

The NGOs, which advocate the official model of (quasi)civil society, as well as the ideological vertical created in 2003–2004, are supposed to legitimize the measures taken to make the third sector stay where it is. *Thirdly*, the strategy of behavior offered to promote development of civil society and alternative projects is still not very attractive to many third sector entities.

Although the events observed throughout the year display people's growing aspiration to self-organization based on the values of freedom and democracy, they did not have an impact on the authoritarian, paternalistic nature of the Belarusian state. Development of the bill on nonprofit organizations intended to tighten the government's control over the third sector was met with reactive legislative initiatives of independent NGOs, which, however, were put on ice by the authorities.

Involvement of independent NGOs in the Eastern Partnership program did not result in appreciable breakthroughs in development of Belarusian civil society either. The notorious events on the presidential election day and their consequences deepened the split in society and made the chance for its consolidation around the European values much slimmer.

PARTY THEATRICALS FOR POLITICAL PROCESS

Yury Chausov

Summary

The year 2010 could have witnessed the peak of party activity in the Belarusian political field. It was a “big political year” with two election campaigns conducted in line with reformed election regulations, envisaging, among others, additional opportunities for political parties. However, the local elections failed to become a significant event due to limited party engagement. Anyway, parties viewed those elections as a drill before the presidential election campaign. However, during the presidential campaign itself, non-party candidates took the lead. They regarded parties as containers with human and organizational resources up for grabs. This balance of forces between party and non-party opposition agents was mostly due to centrifugal trends in the opposition and actual break-up of the *United Democratic Forces* (UDF) coalition.

The organizational fragmentation of opposition structures and conflicts among parties were to a large degree predetermined by the progress in learning the lessons of the previous presidential election of 2006, when the interests of the personified democratic leader collided with the interests of the general opposition coalition. That structural conflict was further complicated by disagreements over strategies: opposition entities advocating a milder regime for Belarus and its geopolitical redirection towards the European Union are accused of compliance and opportunism by uncompromising opposition agents campaigning against any dialogue with the regime, denying the possibility of its evolutionary transformation and using revolutionary rhetoric. Both structural and strategic discrepancies have remained in party interactions since the 2006 election, although the severer policy adopted by the regime recently had promoted a nominal association of opposition forces.

Tendencies:

- Opposition political parties' engagement in the presidential election was determined by the need to retain their political identity in a situation where non-party centers accumulating resources and influence have taken on leading roles in the opposition system;
- Amendments to election regulations in early 2010 offered political parties more powers in the organization of the election process, hence additional efforts of the parties supporting the current political regime to nominate their representatives in election commissions and teams of election observers;
- The largest pro-governmental public association *Belaya Rus* redoubled its efforts to perform the functional role of a pro-presidential party that would become an efficient mechanism to ensure public support for the current regime;

- Centrifugal trends in opposition parties had reached their peak by mid-2010, when a few parties that formally make part of a single coalition nominated their candidates for the presidency, whereas a single party could have representatives of a few initiative groups supporting various candidates;
- After the presidential election and the dramatic escalation of political repression that followed, the centrifugal trends in opposition structures were replaced by a tendency towards convergence with a view to resolving the common task of resisting further crackdown;
- Disagreements between the groups advocating dialogue with the authorities and warring opposition determined the nature of the interaction among parties during the presidential campaign and remained unresolved after the presidential campaign had been completed.

Legal climate for parties' activities

As of January 1, 2011, there were 15 political parties in Belarus and 976 registered local party organizations.

In 2010, 274 new party organizations were registered, 15 times as many as in 2009, when only 18 new organizations were registered. The substantial number of new registrations did not result in an overall increase in the number of party branches, though. On the contrary, the number has been falling from year to year. It appears that the impressive increase in the number of newly registered party organizations was exclusively in the domain of pro-governmental parties, whereas the number of offices of opposition parties dropped correspondingly, as they were struck off registers.

Structures of opposition parties are most frequently liquidated under the traditional pretext that they have no legal address (or their address is revoked), mostly for economic reasons and because of total state control of the real estate market.

Year	Number of party structures of all levels
2007	1,114
2008	1,008
2009	994
2010	976

One example of the use of the legal address leverage to exercise pressure on opposition political parties was the revocation of the *Belarusian Popular Front Party* (BPPF)'s right to lease the premises that the party had rented for over 20 years. The headquarters of the party used to be the center of activity free from the interference of the

authorities in downtown Minsk: the premises were used to host not only the events of the party itself, but also congresses of other political parties, expositions, concerts and press conferences. After the mass arrests of December 19 – 20, the party headquarters became the center for raising money and providing other kind of support for the detained activists and their families. Therefore, the letter the BFPF received on December 29 from the proprietor of the premises (local authorities) with a demand to vacate the office starting April 1, 2011 should be considered a punishment for the solidarity campaign. If the party fails to defend its right to lease the premises in a court of law in spring, the oldest political party of the country will be faced with a threat of losing its legal address and, consequently, the status of a registered organization.

Since the regulatory framework for the creation of new political parties in Belarus remains very tight, the liberalization of social and political life in the country prior to and during the presidential election did not result in registrations of any new parties. A new attempt to register the *Belarusian Christian Democracy* (BCD) (its fifth overall attempt as an organization and third as a political party) failed. The Justice Ministry said the BCD had provided inaccurate information about the founders of the organization, including forged documents, while the initiators were said to have violated the generally accepted procedure of establishing a political party. Based on questioning of the founders and a probe into documents submitted for registration, the Justice Ministry on October 25 decided to turn down the application for registration. In November 2010, the Justice Ministry denied the application for registration filed by the *Belarusian Communist Party of Workers*, led by Leonid Shkolnikov. That new party was a joint effort of former members of the *Party of Communists Belorusskaya* (PCB) who firmly opposed the renaming of PCB into the *Party Fair World* and its withdrawal from the Marxist-Leninist ideology.

During the election campaign, the authorities never lessened control and rigid regulation of the activity of political parties, despite the fact that the limited liberalization period was not over. For instance, the Justice Ministry refused to recognize the extraordinary XIII congress of the BFPF as legitimate and declared its decisions void (the congress made the decision to nominate the deputy chairman of the party as a presidential candidate). It is noteworthy that when announcing its decision not to recognize the results of the congress, the Ministry cited complaints and reports that it received from the

party members who represented the previous generation of the party leadership, which was replaced during the previous BPPF congress in 2009. Because of the gross violations of the charter of the party and legislation of the Republic of Belarus during the preparation and conduct of the extraordinary XIII congress, the Justice Ministry on July 2, 2010 officially warned the party.

It was the *Belarusian Social-Democratic Party (Hramada)* that was faced with the most severe interference of the Justice Ministry, though. The latest congress of the BSDP(H) that took place on October 10, 2010, was also declared illegitimate because of major violations of the party charter and legislation of the country. The registering authority therefore did not acknowledge the powers of Anatoly Sidorevich, who superseded Anatoly Levkovich as chairman. The latter did not recognize his dismissal as party leader and further expulsion, though, and, just the way it happened with the BPPF, the previous leadership of the BSDP(H) chose to cooperate with the registering authority seeking to have the powers of the new leadership officially nullified. The party has been proposed to prepare and hold a repeated XIII congress of the BSDP(H) and received a warning letter, while consultations with the Justice Ministry over ways to overcome the legal deadlock were conducted with the previous party administration. It was the Ministry that made the choice of the legitimate leader based on its own vision of the problem and political reasons.

The amendments to the legislation on political parties in early 2010 were advertized by the current regime as major improvements in the legal environment for parties. Specifically, the newly effective Special Part of the Tax Code reduced the rate of duties for registration of parties, their branches and amendments to charters. At the same time, the amendments to the law on political parties, which came into effect on January 4, 2010 left the legal procedure of party registration unaffected. On the contrary, the law allowed arbitrary registration denials based on minor and easily rectifiable defects (for instance, mistakes in paperwork). The law officially formalized the limitations that had been often resorted to in actual practice long before the amendments came into effect. The official ban on financing of political parties and party unions from the republican and/or local budgets was a novelty.

The reform of the election regulations and their implementation during the local councils election campaign (April 25, 2010) and the presidential election campaign (December 19, 2010) became essential for the development of the Belarusian party system. The new version

of the Electoral Code dated January 4, 2010 enhanced the role of political parties during the preparation and conduct of elections. Specifically, the Code introduced quotas for representatives of parties and other public associations in election commissions, whereas the numbers of state officials in commissions were to be limited. The procedure of nominating candidates for deputy by parties and initiative groups was simplified, and the same holds for canvassing. The document identified legal reasons for collection of donations to finance election campaigns.

However, in practice the role of parties in organizing elections remained virtually unchanged: the quotas in election commissions were mostly filled by representatives of pro-governmental public associations and trade unions. The number of representatives of parties supporting the authorities (the *Social and Sports Party*, *Republican Labor and Justice Party*, etc.) also increased, albeit to a lesser degree. As for opposition parties, their representation in election commissions did not increase much. The remarkable fact is that nearly all representatives of pro-governmental parties were included in commissions, whereas most of the nominees of opposition political parties, as before, faced denials.

Coalition building

Opposition political parties entered the year 2010 in two coalitions, which positioned themselves as the main representatives of the opposition before the presidential campaign. The *United Democratic Forces* (UDF) still strove for the leading role in the coming election, its key players being the *United Civic Party* (UCP), *Belarusian Party of the Left Fair World*, *Belarusian Social-Democratic Hramada* and some other organizations. These ambitions were not realized in 2010, because neither during the local nor the presidential election the coalition managed to act as an integral entity, although progress was made in coordinating activities.

The UDF's influence as a center that formulated strategic approaches for the Belarusian opposition was quite significant in the country's political landscape. Specifically, on January 24, 2010, the political council of the coalition convened for the first time in a very long time to adopt amendments to the UDF strategy passed at the VII Congress of Democratic Forces in 2007. The changes were aimed at working out a harder position of democratic forces on the dialogue with the authorities, polarizing resisting groups in the opposition and

transmitting the bipolar picture of Belarusian political life (the regime vs. the opposition). That strategy for polarization and placing emphasis on social rift later became a starting point for few presidential election campaigns: most of the candidates dismissed it and built their election platform on its negation. However, some politicians employed that approach as a strategy for the post-election period, when political repressions made it clear that the struggle against the authoritarian regime had no room for compromise.

In the first half of 2010, the *Belarusian Independence Bloc* (BIB) contended for the role of the gravitation center consolidating national democratic forces. The coalition was formed in late 2009 by the BPPF, the *For Freedom* movement, the *Belarusian Christian Democracy* and a few other minor organizations. The association was perceived as the core of the future election campaign of Alexandr Milinkevich after his second nomination as a presidential candidate. However, in May-June 2010, BCD representatives blocked the procedure of nomination of a single candidate by the coalition. By that time, the opposition structures forming the BIB had already announced nomination of their own candidates for the presidency, while Milinkevich, the leader of the *For Freedom* movement, was considered an obvious favorite of any initiative to nominate a single candidate of the bloc. The BCD yet again claimed it would be involved in the nomination process only if its representative was officially appointed as the head of the election headquarters and the initiative group of the single candidate. As a result, the bloc as good as suspended its activity in June 2010, and a few weeks later, the leader of the *For Freedom* movement gave up his nomination plans. By that time, non-party candidates representing *Speak the Truth!* and Charter-97 initiatives had assumed leading positions in the Belarusian opposition alongside representatives of the UCP, which is part of the UDF.

To save their faces, the national democratic forces announced the creation of the *Belarusian Choice* initiative after the presidential election campaign had officially started. The foundation agreement was signed by chairman of the *Belarusian Zelenye (Green) Party* Oleg Novikov, leader of *For Modernization Union* Ales Mikhalevich, BPPF nominee Grigory Kostusyov, *For Freedom* movement leader Alexandr Milinkevich and BPPF chairman Alexey Yanukevich. The new coalition was founded on the idea of protection of state independence of Belarus and a policy towards changing the political regime. The political initiative was in fact an attempt to put a good face on things. After the presidential election, the coalition has

provided a platform to coordinate joint actions of national democratic forces.

Importantly, not a single inter-party coalition played an independent role during the presidential campaign itself, mostly because of the loss of trust in the UDF and its almost complete dissolution in late 2009. Most of senior UDF executives were engaged in the *Speak the Truth!* campaign (representatives of Fair World and the UCP). The strategic approach of some of the former leaders of the BPFP, which supported the UCP strategy, to a large extent predetermined the ideological foundation of Andrey Sannikov's campaign.

After the election, nearly all opposition parties became involved in the new consolidating body — the *National coordinating center of democratic opposition*, which articulated the position of the "united opposition" amid unfolding repression.

Participation in elections

Opposition parties did not regard the elections to local councils of deputies of April 25, 2010 as a significant event. The parties that are commonly considered democratic in Belarus were mostly interested in assessing the adjustments in the process of organizing the elections in accordance with the newly adopted electoral legislation. The opposition political community prioritized the possibility for opposition representatives to be included in election commissions, emphasis being placed on district election commissions. The true objective of Belarusian democratic forces was not to get a certain number of mandates, but have party nominees included in election commissions. Judging by the real numbers, opposition parties admitted that their experience of taking part in local elections was negative: the number of opposition representatives in district commissions increased only slightly, to around 0.1% of the total number of commission members.

A total of 25,033 candidates strove for 21,301 mandates of deputies of local councils, around 1.17 candidates per mandate, but less than ten opposition representatives — all of them from the BCD and *Fair World* — got the coveted cards.

Therefore, the changes that the opposition took so many years to fight for and that were finally included in the Electoral Code through consolidated efforts of Belarusian opposition groups and the OSCE ODIHR, had no impact whatsoever on the essence of the election process. Legal fetishism played a bad trick on opposition parties: after

years of seeking amendments to electoral regulations, the two election campaigns of 2010 made it absolutely clear that not everything depends on laws in the political legal process.

The parties regarded the elections to local councils as a dress rehearsal for the presidential election campaign; however, party nominees played a minor role during the presidential campaign compared to non-party candidates. The Belarusian political field had reached such a high degree of atomization that entities that used to be secondary were now showing ambition and planning their own political game using their own resources. One of the chief newsmakers of the presidential campaign was the *Speak the Truth!* initiative inaugurated in February 2010. Charter-97, the coordinating center of a broad range of political forces, had been preparing its own leader under the *European Belarus* plaque, in order to bypass the traditional party mechanisms of identifying the leader.

The named structures were the centers of accumulation of financial and other resources; therefore, they can be called "real parties" of the Belarusian opposition as opposed to nominal political parties, which struggled to preserve their own identity during the presidential election. Those nominal parties are viewed by "real parties" as a feeding ground: they are used to engage activists and functionaries; sometimes, entire nominal party organizations are employed by real parties.

Under the circumstances, political parties had to nominate their own presidential candidates to preserve their identity. In most cases, they did not nominate leaders, though, but functionaries acting as deputies or co-chairmen. For example, the UCP, weakened by the "proselytism" of *Speak the Truth!*, nominated deputy chairman of the party, economist Yaroslav Romanchuk; the BPF Party also nominated its deputy chairman Grigory Kostusyov, a Shklov resident. The unregistered BCD party nominated its co-chairman Vitaly Rymashevsky, and the leader of one of the splinters of Belarusian social democracy, the chairman of the permanently unregistered *Belarusian Social-Democratic Party Narodnaya Hramada*, Nikolay Statkevich, was nominated for presidential candidate at the *European Choice* congress in June 2009. All the nominees mentioned above managed to collect 100,000 signatures, sufficient to be registered as presidential candidates, although some of them were accused of forging signatures.

The *Liberal-Democratic Party of Belarus* nominated its chairman Sergey Gaidukevich, who ran for the presidency in 2001 and 2006, however, Gaidukevich withdrew from the race during the collection

of signatures citing "the evident outcome of the campaign". Back in 2001 and 2006, Gaidukevich was considered Lukashenko's sparring partner, therefore, his withdrawal was interpreted as a proof that Lukashenko needed no sparring partners in a situation when the opposition was unable to agree a single strategy, whereas the risk of losing alternatives (should all candidates withdraw) was minimal. Gaidukevich claimed he had collected the necessary 100,000 signatures to support his status as a candidate.

The only party nominee who failed to collect the required number of signatures was deputy chairman of the *Belarusian Green Party* Yury Glushakov, who had to admit his failure.

The *Belarusian Party of the Left Fair World* (former communists) chose a different survival strategy — through the organization of an election monitoring service and campaign to support nomination of opposition representatives in election commissions. That campaign, dubbed *For Fair Election*, became a continuation of a similar project conducted by the party together with the *For Freedom* movement and other opposition structures during the parliamentary elections of 2005. The project was implemented simultaneously with the monitoring campaign of the public organizations making part of *Human Rights Activists for Free Elections* and was somewhat overshadowed by that initiative.

According to *Human Rights Activists for Free Elections*, of the 84,084 representatives of political parties, public associations, enterprises and communities nominated for membership in 6,346 district election commissions, only 1,073 people were nominated by opposition political parties. The remaining representatives were nominated under control of local authorities, which had "quotas" for enterprises and institutions, and had all members of commissions approved in high places even before the nomination process was completed.

It turned out that only 183 representatives of opposition parties or 17.1% became election commission members, which compares to the average acceptance rate of 84.3% (70,815 people out of 84,084 nominees); the figure was at 87.7% for representatives of the parties loyal to the regime (1,586 out of 1,808) and 93.2% for the four largest pro-governmental public associations and one trade union with the same stance (23,689 out of 25,419). For instance, the acceptance rate for *Belaya Rus* and *Belarusian Women's Union* reached 100% (808 out of 808 and 869 out of 869, respectively).

As a result, representatives of political parties made up 0.25% of all members of district election commissions and were present in 3% of the total number of commissions, which was not enough to influence

the work of commissions and the key element of the election — the organization of the voting process and vote count.

Conclusion

The year 2010 was marked by an active participation of political parties in the presidential election, however, this participation had very little to do with the real struggle for power — opposition parties either pursued their own ends or performed auxiliary functions for non-party candidates. The latter had a lot more material resources and were not bound by coalition treaties, which enabled them to dominate in their relations with parties and dictate their will. The active nomination of presidential candidates by political parties was motivated by the wish to preserve their identity, including through manifestations of ideological otherness of this or that party.

In the near future, the development of political parties will be defined by the factor of the parliamentary elections slated for the autumn of 2012. The key areas and initiatives for political parties to channel their efforts in 2011 are as follows: to resist repression and fight for the release of the political prisoners; influence the position of the international community on the situation in Belarus and possible imposition of political and other sanctions against Belarusian officials responsible for human rights abuse. Parties may become the basic internal entity to announce the end of the period of mass political repression, which marked their start on December 19, 2010, the day of the Belarusian presidential election. Political parties are yet to choose their strategy for the coming parliamentary elections in order to make use of the pre-election situation and improve the situation with democracy and human rights in the country. Most of discussions in parties and coalitions will be over the conditions of participation or non-participation in the parliamentary elections should the country still have political prisoners at that time. Those advocating participation in the parliamentary elections will insist on having a new reform of the regulatory framework of the election process, including amendments to the Electoral Code. However, such a reform looks very unlikely, and so does the possibility of a transfer towards elements of the proportional election system. It is also unlikely that the public association *Belaya Rus* will be transformed into a party, although this topic will be widely discussed in the state media on the initiative of *Belaya Rus* functionaries, who are interested in increasing the status of that ambiguous structure in the framework of the national political system.

RELIGIOUS SPHERE: IN THE RUN-UP TO THE PRESIDENTIAL CAMPAIGN

Natallia Vasilevich

Summary

The Presidential election was the central event in 2010. In the run-up to the campaign the repressive mechanism, including that in the religious sphere, was relaxed. Nevertheless, despite some liberalization, there were reports about violations of religious freedom; the conflict around the New Life Church has not been resolved.

In 2009, religious life in Belarus was developing under the sign of the Pope. In 2010, the top media event was Lukashenko's visit to Constantinople and his meeting with the Ecumenical Patriarch Bartholomew, which triggered discussions about the probable autocephaly of the Belarusian Orthodox Church. The Belarusian Christian Democratic Party (BChD) inspired believers of different denominations to take part in the Presidential campaign of Vital Rumaŭeuskі (Rymashevsky), who used a lot of religious rhetoric and became popular as an active churchgoer of the Belarusian Orthodox Church (the BOC).

As for the BOC, its activities were not intensive; the probable retirement of the BOC top patriarch Metropolitan Filaret (Vakhromeev) was even discussed. Throughout the year, there were reports that classes on Orthodoxy might be introduced in schools according to the approved syllabus. In reality, no progress on this front was made. Discussions took place around the probable concordat with the Vatican, but there have been no progress here, either. In the first half of 2010 tension developed between the Belarusian regime and the Russian Orthodox Church (the ROC). Nevertheless, in the forerun to the Presidential elections heads of the ROC even tried to mediate the reconciliation between Minsk and Moscow. They also supported the Belarusian regime after the Presidential election, though the Belarusian Exarchate's attitude to the campaign and the events after it was ambiguous.

Tendencies:

- There is still pressure in the religious sphere: certain religious organizations and foreign citizens are persecuted;
- There is no threat of the BOC's autocephaly in Lukashenko's visit to Constantinople; the Moscow Patriarchate, despite many misunderstandings with the Belarusian regime, remains the latter's supporter;
- Relations with the Vatican are developing much slower than the public and experts have expected: the concordat was to be concluded last year, nevertheless, it is still "being elaborated";
- The BChD introduced religious rhetoric into the broad political discourse; its participation in the Presidential election changed electoral behavior of active churchgoers.

General information

According to the Commissioner for Religious and Ethnic Affairs, in 2010 the number of registered religious organizations grew from 3263 to 3321, the number of religious communities among them as of January 1, 2011 is 3162¹. Significant regional differences can be observed: 719 communities are found in the Brest region, but only 269² in the Mogilev region. The biggest number of parishes is in the Belarusian Orthodox Church (1545); the Roman Catholic Church has 472 parishes, Protestant — 1005 (including the Pentecostals — 505, the Evangelical Christian Baptists — 275, the Seventh-Day Adventists — 72). The number of believers of each denomination is still estimated by polls, but other statistical data are available as well: according to the Interior Ministry, Christmas masses in Catholic churches were attended by 236 thousand people³ (including 7 thousand in Minsk⁴), whereas 134 thousand people (including 9 thousand in Minsk) attended Orthodox churches⁵. Before the Presidential election oppression in all spheres of social life lessened; and, unprecedentedly, two sentences on Ivan Michaylov⁶ and Dmitry Smyk⁷ were vacated: the young men were demanding alternative military service because of their religious beliefs. At the same time, Andrej Cianiuta (conscripted for military service) and Jauhien Jakavienka (sentenced to 1 year's penal labor), who demanded alternative military service on grounds other than religious, were not acquitted. Uladzimir Kachahura, pastor of the New Generation Church (Navahrudak) and BChD activist, was convicted of "conducting divine services without local executive body's permission" and sentenced to a fine. However, the superior court vacated the sentence, submitted the case to reconsideration and, finally, closed it.⁸ Vasil Palujanau, leader of Jehovah's Witnesses group from Babrujsk, was sentenced to a fine for illegal religious activities, but a higher court vacated the sentence.⁹

¹ http://www.belarus21.by/ru/main_menu/religion/sotr/new_url_1648988856

² Ibid.

³ http://www.belta.by/ru/all_news/society/V-rozhdestvenskix-bogosluzhenijax-v-katolicheskix-xramax-Belarusi-prinjali-uchastie-okolo-236-tys-chelovek_i_537362.html

⁴ http://www.map.by/news/society/news_ic_news_116_358158.htm

⁵ <http://belapan.com/archive/2011/01/10/440852/>

⁶ <http://ags.by/?p=9093>

⁷ <http://www.belhelcom.org/ru/node/10081>

⁸ <http://new.nv-online.info/by/88/40/17020/>

⁹ http://www.forum18.org/Archive.php?article_id=1452

It is still too early to say that the state decided to stop oppressing religious organizations. Just to name a few cases: on May 23, in Drahinyn three Baptists were detained for setting up a Christian library in the street; on June 26, in Kobryn Viktor Novik, pastor of the Pentecostal church in Hrušava was sentenced to a fine on charges "violating public events' regulations" for singing and distributing leaflets¹⁰. The perennial controversy between the authorities and New Life Church entered a new round. The attempt to take away the church's building took a new turn. The church was sentenced to a BYR 257 million fine (ca. USD 100,000) for alleged contamination of the ground around its building with petroleum-based products, but refused to pay the fine.¹¹ The authorities had to turn to international experts for help. For example, according to ONT, a state-owned TV channel, Thomas Gandow, German expert on religious sects, allegedly called the New Life Church a cult.¹² Later, Mr. Gandow denied having characterized the organization in this way.¹³ This cult expert turned into a big media-figure: besides the New Life, the Belarusian Christian Democratic Party was also presented in a negative light, but this might be a case of unethical journalism.

The civil campaign to protect St. Joseph Church in Upper Town is still running. On March 19, 2011 it has been 5 years since its beginning; 30,000 signatures have already been collected. In 2010, another signature-gathering campaign headed by the BChD, that engaged themselves actively, collected 6.5 thousand signatures for a petition¹⁴, which were sent to state and church administrations¹⁵. Since September 16, during the Presidential campaign, the picketing has been held on a daily basis. Unfortunately, after 20 days the participants had to take a vote whether to continue picketing or not,¹⁶ especially after the unfavorable opinion of the Roman Catholic Metropolitan Tadeusz Kondrusiewicz in his interview for state newspaper *Belarus Segodnya* (*Belarus Today*).¹⁷ The campaign continued in the form of daily meetings with figures of culture, concerts and performances. The *Spiritual Heart of Minsk* civil

¹⁰ http://photos.state.gov/libraries/belarus/136671/pdf/IRF%202010_Bel.pdf

¹¹ http://newlife.by/news_full.php?id=865

¹² http://ont.by/news/our_news/0058178

¹³ http://www.newlife.by/news_full.php?id=835

¹⁴ <http://nn.by/?c=ar&i=42293>

¹⁵ <http://www.svaboda.org/content/article/2158733.html>

¹⁶ <http://www.svaboda.org/content/article/2177589.html>

¹⁷ <http://www.sb.by/post/106218/>

committee was established.¹⁸ Unfortunately, the campaign has not achieved anything so far.

Two major state-religious events took place in 2010: the 300th anniversary of Minsk Arch Cathedral Church of the Name of the Blessed Virgin Mary and burying of the remains of unidentified soldiers in the Church of All Saints in Minsk. No high-level visit of Patriarch of Moscow Kirill to Belarus took place, except for a transit stop in Vitebsk. Among foreign visits we should mention President Lukashenko's meeting with the Patriarch of Constantinople Bartholomew in Istanbul and his meeting with the Cardinal Secretary of State Tarcisio Bertone during the OSCE Summit in Astana. Both meetings were rather ceremonial, albeit the one with the Ecumenical Patriarch stirred speculations, both in Belarus and Russia, about the probable autocephaly of the Belarusian Orthodox Church.

In 2010, media focused on two main topics: the probable introduction of *Basics of Orthodox culture* into the school curriculum, which is being initiated by the Belarusian Orthodox Church; and a potential agreement with the Vatican, which is still being elaborated.

Legislation and institutions

The law *On freedom of conscience and religious organizations* has seen no changes in its restricting part. Any religious community has to meet a number of conditions to become legal: compulsory registration; religious buildings in possession (Leonid Gulyako, Commissioner for Religious and Ethnic Affairs, paid special attention to this point in his annual report on 2010, because of numerous examples when religious communities exploited buildings being their property but of non-religious character – which violates the law¹⁹); territorial restrictions on activities.

In late 2009, part 2 of section 9.9 of the civil code (administrative punishment for illegal religious activities) was repealed. But the criminal regulation of the same type of offence was retained. Hence, criminal punishment will be applied immediately, i.e. the legal regulation became more repressive. On the other hand, during 2010 this norm has never been applied against religious activists.

¹⁸ <http://new.racyja.com/news/gramadski-kamitet-za-vyartanne-kastsela-svyatoga-yazepa-verniam>

¹⁹ http://www.belta.by/ru/person/opinions/Leonid-Guljako_i_511480.html

Under the *Regulations on foreign citizens and stateless individuals coming to Belarus for religious activities*,²⁰ activities of foreigners, mostly Catholic and Protestant activists, have been impeded.

In 2010, the Office of the Commissioner for Religious and Ethnic Affairs elaborated the *Regulations on the structure, content and procedure of submitting information for registering a religious community practicing a religion previously unknown in Belarus*.²¹ The goal of the document is to prevent registration of unlawful religious organizations; the Council of Ministers approved it by Ordinance No. 548 as of April 9, 2010.

Tension in the religious sphere is caused by legal regulations rather than by single cases of persecution: the former are applied selectively, there are no precise or unified mechanisms regulating and protecting freedom of conscience. The Belarusian regime has no resources to control the religious sphere. Therefore, its task is to establish institutional mechanisms for religious organizations so that they limit their activities and do not transgress the limits determined by the state.

On September 10, Minsk hosted an international conference on problems in the sphere of freedom of conscience to solve institutional problems caused by regulations and their enforcement. Representatives of state bodies, religious and international organizations, civil society, and experts passed a resolution on measures to improve the situation²² and presented the Road Map of the Eastern Partnership.²³ Both events show that civil society is about to solve the issue of religious liberty, but so far this process involves a limited number of actors.

A special working group of youth and human rights activists worked out suggestions for the law *On the alternative military service*²⁴ specifying probable refusals to serve because of religious beliefs. The Alternative Civil Service campaign was quite active in 2010 and managed to involve state organs, and yet the bill has not been elaborated.

²⁰ http://pravo.by/webnpa/text.asp?start=1&RN=C20800123#%C7%E0%E3_%D3%F2%E2_1

²¹ http://www.belarus21.by/ru/main_menu/religion/sotr/new_url_1648988856

²² <http://ecumena.by/?p=62#comments>

²³ <http://eurobelarus.info/images/stories/DK5.pdf>

²⁴ <http://ags.by/?p=9353#more-9353>

The adoption of the Education Code²⁵ limits home education. We should note here, that in the USA a great number of Protestants prefer this very type of education: this tendency applies to Belarusian Christians as well, especially Protestants.²⁶ To expand options for home education, the initiated *Christian Movement*, coordinated by Aliaksei Ĭein (Shein), BChD co-chairperson, submitted 500 signatures to the House of Representatives.²⁷ Nonetheless, the deputies did not take them into consideration.

There is one more religious issue in the educational sphere: introduction of religion classes in comprehensive schools. Their main promoter is the Belarusian Orthodox Church. They organized several conferences on this topic and elaborated a number of syllabuses, including the much-talked-of optional course *Basics of Orthodox culture*. The course *Orthodox shrines of Eastern Slavs* for grades 1 to 11 was elaborated by the Coordinating Council of the Ministry of Education and the BOC²⁸. But it was not approved by the National Institute of Education as there were no proper workbooks.²⁹ Nevertheless, some educational establishments organize optional courses of this kind, even without proper, i.e. approved, syllabuses. In most cases, the administration decides. Though, in reality, even if both the administration and parents agree, it is difficult to introduce such classes because the course is not on the list of optional courses of the Ministry of Education. The course was improperly advertized (allegedly, it was to be introduced in all schools), which stirred a broad discussion in the media: in *Zvyazda* daily, *Nasha Niva* weekly, on the Internet.

The campaign to protect St. Joseph Church proposed a bill *On restitution of realty of religious worship from state or community to religious organizations*. The bill was proposed as a "BChD" document.³⁰ Nevertheless, the party did not include it into its official program. Moreover, the law is quite "raw": it does not take into consideration the situation in Belarus.

The Commissioner for Religious and Ethnic Affairs considers the realty issue very acute for state-confessional relations: Protestant churches "misuse" the property of religious organizations; some

²⁵ <http://pravo.by/webnpa/text.asp?start=1&RN=Hk1100243>

²⁶ <http://alaksiej-sein.livejournal.com/3240.html>

²⁷ <http://new.racyja.com/node/6290>

²⁸ <http://churchby.info/bel/news/2010/07/29-1/>

²⁹ <http://churchby.info/bel/624/>

³⁰ <http://zmk-by.org/forum/viewtopic.php?f=39&t=377&start=0>

organizations, despite receiving help from the state, "fall behind in protecting the buildings". He concludes that "we should pay more attention to the process of restitution of objects that are valuable historical buildings"³¹. There was a big scandal around St. Boris and Gleb's Church in Novogrudok, when the reconstruction workers substituted the original domes with onion-like ones (typical of Orthodox churches in Russia).³² The public tried to intervene and protest, but the reconstruction was finished.

In 2011, legal regulation on religious organizations might be changed as there is a law *On non-profit organizations* to be passed.³³ Religious organizations take little part in discussing it.

Orthodox believers regularly submit requests about individual registration numbers. Such initiatives are quite well-organized, though not as numerous as in Russia or Ukraine. These requests receive no answers.

The Council for Morality is still functioning, but its activities are limited: attempts to forbid concerts of *Rammstein* or Elton John for moral reasons. These attempts have no effect, which shows the actual power of this institution.

Belarusian Orthodox Church: Are autocephaly and independence possible?

The year 2010 was not rich in events for the Belarusian Orthodox Church. Nevertheless, some events raise the question of its future. The first one was the news that on May 31, Metropolitan Filaret (Vakhrushev), Primate of the Belarusian Exarchate, submitted an application for retirement. Despite that Metropolitan Filaret remained the ruling hierarchy; the question of his successor became topical. The mechanism of election and decision-making is highly non-transparent, that is why we can only discuss potential candidates. One thing is clear: this decision is made in Moscow, by the Synod of the Russian Orthodox Church, according to the status of the Exarchate. The discussions revolve about two main candidates: Georgy, Archbishop of Nizhny Novgorod and Arzamas, of Belarusian origin, paying often visits to Belarus³⁴; and Dmitry, Archbishop of Vitebsk and Orsha.

³¹ <http://churchby.info/rus/671/>

³² <http://churchby.info/bel/642/>

³³ <http://www.lawtrend.org/ru/data/644/>

³⁴ <http://eparhiya.by/main/42-s-vizitom-na-gomelshhinu-prebyvaet-arxiepiskop-nizhegorodskij-i-arzamasskij-georgij.html>

Patriarch Kirill met with the latter in Vitebsk on June 4, 2010, during his transit trip through Belarus (he also visited this eparchy in 2009). Nevertheless, due to the reasons mentioned above discussing the chances of either candidate is futile.

The news of the probable retirement provoked a stormy reaction in the Belarusian Exarchate: archimandrite Alexius (Shinkevich) was dismissed from his position of the media relations executive after publicizing this statute procedure of age retirement. In 2009 the archimandrite unexpectedly denounced a negative report about the BChD on BT, Belarusian TV1. As a result he gained respect among the opposition and suspicion among state functionaries. There seemed to be nothing scandalous in the news about Filaret's probable retirement, but nevertheless, archimandrite Shinkevich lost his media-relations position.³⁵

Why? When Bishop Benjamin (Tupeko) of Borisov, was appointed Vicar of Minsk diocese, it became even more apparent that Metropolitan Filaret cannot fully perform his duties. The young hierarch was also appointed head of the newly established institution: the Publishing Council, which is to coordinate publishing Orthodox literature in Belarus.

Who is managing the Belarusian Exarchate after all, if Metropolitan Filaret is gradually losing his position? At the level of relations with the regime, we can state that degree of Metropolitan's loyalty to it in speeches and addresses is reducing. It is reducing from the opposite side as well: more than once did Lukashenko ignore both traditional services in the Holy Spirit Cathedral and the Metropolitan personally in his relations with the church administration in Moscow. The leading position in state-church relations is being taken by Feodor Povny, an archpriest close to President Lukashenko.³⁶ His authority in the BOC is based on his closeness to the state, the symbol of which was the President's participation in the pompous burial of remains of unidentified soldiers in the crypt of the Church of All Saints on July 2, 2010. At the annual meeting with the Synod on April 22, 2010, Lukashenko called the harmonious relation between the state and the [Orthodox] Church "a symphony"³⁷. The President presented *his*

³⁵ <http://www.interfax.by/article/66634>

³⁶ Малютин А. Церковный премьер Беларуси. Фёдор Повный – священник у олимпа политической власти // Портал Кредо: http://www.portal-credo.ru/site/?act=press&type=list&press_id=980

³⁷ <http://churchby.info/rus/491/>

vision of this "symphony": "Strong power is the pledge of confidence of Belarusians, the Orthodox Church has always been and remains its faithful ally"³⁸.

But before and during the Presidential election the Belarusian Orthodox church turned out to be not *that* faithful to the "strong authorities". Metropolitan Filaret gave speeches both at the All-Belarus Assembly and inauguration, but, unlike previous political seasons, they were not that pro-regime. A lot of believers and priests, having an alternative to the "Orthodox atheist" Lukashenko – the active "Orthodox churchgoer" Rymaseuski – started giving preference to the latter. The BChD campaign, addressed to church activists, was successful among the Orthodox.

Unlike the congratulations that Patriarch of Moscow Kirill immediately sent to Lukashenko, the BOC's reaction to the results and the follow-up of the election was not that definite. Archpriest Feodor Povny denounced actions of the protesters on BT (Belarusian TV1), but the events afterwards showed that the Orthodox community of Belarus is showing unprecedented signs of civil identity – with little inclination to "strong authorities". For example, the official BOC's monthly *Carkounaje slova* (*Ecclesiastical Word*) published a letter from believers concerning the December 19th events³⁹; there were letters addressed to the Patriarch expressing bewilderment at his congratulation⁴⁰; in parishes people prayed for the arrested and injured on December 19, etc. These actions were initiated by the middle rather than "the ruling top" of the BOC. Nevertheless, we can talk about certain changes in the BOC's position on the civil and political situation in Belarus, despite the opinion expressed by its superior administration in Moscow. This situation stimulated more active talks about wider autonomy both from the centre and the state.

Lukashenko's visit to Constantinople, when he met with Bartholomew, Patriarch of Constantinople, provided another cause for discussing autocephaly.⁴¹ Some regarded that visit practically as a step to autocephaly. Nevertheless, according to the Greek sources and the Ecumenical Patriarchate, the visit was purely ceremonial and the issue of autocephaly could not have been discussed. Moreover,

³⁸ http://ont.by/news/our_news/0056060/

³⁹ <http://churchby.info/bel/654/>

⁴⁰ <http://churchby.info/bel/652/>

⁴¹ <http://arche.by/by/30/10/3309/%D0%92%D1%96%D0%B7%D1%96%D1%82-%D1%83-%D0%9D%D0%BE%D0%B2%D1%8B-%D0%A0%D1%8B%D0%BC.htm>

the pan-Orthodox dialogue, preparations for the Inter-Orthodox Council make any drastic changes almost impossible as another Inter-Orthodox meeting in Chambesy (Switzerland) did not arrive at any consensus regarding the mechanism of announcing and recognizing autocephaly.⁴² For Lukashenko, his visit to Constantinople, just like his visit to Vatican, became another PR-move, though a bit less pompous. This visit drew a much wider response in Russia, where it was regarded in the geopolitical light and against the Ukrainian issue. Closeness to Russia, support of the "canonical" Orthodoxy, i. e. subordinated to the Moscow Patriarchate, is welcomed in Lukashenko's policy, whereas support of Catholicism or independent Orthodox Church is not. For Lukashenko this could have been a kind of signal that, together with his pro-Western policy of the recent years, was to have stirred unrest among the Moscow political elite and, hence, secure support at the Presidential election. The "church factor" must have been an important one. The Patriarch could not have taken fright of the "Vatican" and "Constantinople" signals. But having his own geopolitical and geoeclesiastical opinion of "the Russian World", he could have contributed to better relations between the Belarusian regime and the Kremlin.

The Roman Catholic Church: Is a concordat possible?

The issue of the international agreement on cooperation between Belarus and the Roman Catholic Church has been under discussion for several years. The talks began as far back as 2002, after the law *On freedom of conscience* was passed, stipulating a possible concordat. In 2003, a corresponding agreement with the BOC was signed. But they began to work on the document only in 2007, when Deputy Prime Minister Mikail Kosinets announced the real possibility to sign an agreement. The most heated discussions around a concordat began in 2008, when Cardinal Secretary of State Tarcisio Bertone visited Belarus.

Nevertheless, there has been no progress since 2008, except for numerous loud statements that the document would be signed by the end of that summer or year. Alexandr Kashkevich, Chairperson of the Conference of Catholic Bishops of Belarus (the CCBB), told Radio Vaticana in December that the document is ready and we "should pray that it is signed as soon as possible, but that signing is in

⁴² <http://churchby.info/bel/news/2011/02/27-1/>

jurisdiction of the Apostolic Nunciature"⁴³. According to the documents of the Conference, the issue of the concordat was not even discussed.⁴⁴

So, what is the actual situation with the document? How do Belarus and the RCC cooperate? Sergey Aleynik, ambassador of Belarus to the Holy See, in his interview for Radio Vaticana said that "the project to restore frescos in the Arch Cathedral Church is an example of fruitful cooperation, initiated by the President"⁴⁵. He also pointed out that bilateral relations became more active after Cardinal Bertone's visit to Belarus in 2008. But it turned out that only during Lukashenko's meeting with the Pope in 2009 "arrangements for the agreement between the Holy See and Belarus were made"; "the agreement is being elaborated" and Belarus hopes that "the work will be finished soon, though the document needs more time", said Mr. Aleynik in the interview. Who is there in the working group? Is the document "ready" or will "the work will be finished soon"? Who represents the Catholic Church – the Secretariat of State of the Holy See, the Apostolic Nunciature, the CCBB? What Belarusian experts are elaborating the document – the Foreign Ministry or the Office of the Commissioner for Religious and Ethnic Affairs? According to the Commissioner for Religious and Ethnic Affairs, "at present an agreement between the Republic of Belarus and Vatican is being elaborated. The Foreign Ministry is the main developer but the Office of the Commissioner is taking part in elaborating the text of the agreement".⁴⁶ The issue of the concordat was raised during the OCSE Summit in Astana. The President met with Cardinal Tarcisio Bertone who said that "the main sign of trusting relations between the two countries is the agreement that is being now elaborated"⁴⁷. The relations between Belarus and the Vatican might really be trusting. Why is then the signing of the document always postponed? Can it be so that, despite the President's initiative to restore the frescos, the relations between the Catholic Church in Belarus and the Belarusian state are not *that* trusting? Bishop Kashkevich pointed out that "the Catholic Church is always trying to establish dialogue with authorities". But "the number of foreign priests" reduced (from 85 to

⁴³ <http://www.radiovaticana.org/bie/Articolo.asp?c=443835>

⁴⁴ <http://catholic.by/2/conference/docs.html>

⁴⁵ <http://storico.radiovaticana.org/bie/storico/2010-10/426955.html>

⁴⁶ http://www.belarus21.by/ru/main_menu/religion/sotr/new_url_1648988856

⁴⁷ http://belapan.com/archive/2010/12/02/431509_431511/

48 in Hrodna diocese). Moreover, "they are issued visas for only half a year", which complicates their work.⁴⁸

The state is not always happy with the Catholic Church, either. The Commissioner for Religious and Ethnic Affairs Gulyako pointed out that "Catholic communities tend to erect illegal monuments", some priests "ignore the legal framework prohibiting religious organizations to take part in political activities"⁴⁹, which becomes very topical before and after election campaigns. There are priests and lay people in the Catholic Church who take an active part in movements (e. g. the one to protect St. Joseph Church) or parties (the Belarusian Christian Democratic Party), but the administration of the RCC tries to dissociate itself from them. For example, before the Presidential election priest Jury Barok, close to BChD, was commissioned to Israel; Metropolitan Tadeusz Kondrusewicz in his interview for "Belarus Today" daily distanced himself from the activists protecting St. Joseph Church, after BChD had become leader of the movement.⁵⁰ After the election the leaders of the Roman Catholic Church made no reaction whatever to the events on December 19th. Nevertheless, many priests said masses for the imprisoned, a number of Catholic activists applied to the administration of the bishopric to express their opinion about the situation in the country⁵¹; one priest published an Internet article "Gloomy Christmas", saying that keeping silent is a sin in this situation.⁵² Nevertheless, there is still silence, and the document, for which this silence was traded, still remains a bleak prospect.

Belarusian Greek-Catholic Church

In 2010 no significant changes occurred in the life of the Belarusian Greek-Catholic Church. Two issues remained unresolved: absence of a bishop (in 2009 the priests applied to the Vatican to settle this canonical issue) and absence of a proper ecclesiastical building in the capital city (Greek-Catholic intelligentsia addressed a request to the President). Moreover, St. Joseph Centre⁵³ in vul. Ordzonikidze, 6 was threatened to be closed because the building was not in the general layout plan of this district. Masses are celebrated regularly in the

⁴⁸ <http://www.radiovaticana.org/bie/Articolo.asp?c=443835>

⁴⁹ http://www.belta.by/ru/person/opinions/Leonid-Guljako_i_511480.html

⁵⁰ <http://www.sb.by/post/106218/>

⁵¹ <http://churchby.info/bel/672/>

⁵² <http://churchby.info/bel/656/>

⁵³ <http://www.svjazep.org/>

chapel of All Belarusian Saints there, the centre hosts cultural and religious events. Negotiations with the authorities were successful and the Greek-Catholic centre was included into the proper plan.

Alternative Orthodoxy

The influence alternative Orthodoxy did not increase in 2010. Structurally, it is comprised by 3 groups of churches.

Group № 1 is the Belarusian Autocephalous Orthodox Church headed by bishop Sviataslau (Longin), with one parish — "Religious Community of St. Euphrosinia of Polack in Minsk"⁵⁴ — and one priest, Fr. Leanid Akalovich. The community applied for state registration but was denied it.

Group № 2 is the Belarusian Autocephalous Orthodox Church (BAOC) headed by Archbishop Jovan (Puric).⁵⁵ Its main activist is archpriest Sergey Gorbik (Lviv, Ukraine), who moderates the blog "Belarusian Autocephaly". Fr. Sergey's conflict with the Greek-Orthodox movement, headed by Bishop Basil Kostyuk, continued in 2010 in the form of mutual reproaches.⁵⁶

Group № 3 is a parish of the Russian Orthodox Church Abroad headed by Metropolitan Agathangelos (Pashkovsky). Archpriest Leonid (Plyats) governs this group of several parishes in Minsk and Brest regions.⁵⁷ The first three groups support the idea of autocephaly from the Russian Orthodox Church in one way or another, but none of them is recognized by canonical churches. The issue of autocephaly became topical when President Lukashenko visited Constantinople, though the talks were mainly about the Belarusian Orthodox Church. As the results of the meeting in Chambesy in February 2011 show, the issue of autocephaly and its mechanisms is one of the most controversial and unresolved in the inter-Orthodox world: the question was discussed but consensus remained elusive.⁵⁸

Belarusian Christian Democratic Party

The Belarusian Christian Democratic Party became more active in 2010, which is partially due to the Presidential election: the party nom-

⁵⁴ <http://www.belapc.org/religijnaa-gramada-svatoe-euprasinni-polackae-umensku-parish-of-saint-euphrasynia-of-polatsk-in-miensk>

⁵⁵ <http://baocinfo.blogspot.com/>

⁵⁶ <http://belpat.narod.ru>

⁵⁷ <http://rocor.wmsite.ru/drugye/DIRECTORY/prihody-rpcz-a/>

⁵⁸ <http://churchby.info/bel/news/2011/02/27-1/>

inated its candidate — the Orthodox believer Vital Rymaŭeŭski. This fact was often emphasized and became a kind of symbol. The party also tries to "guide" some civil campaigns, first of all, the one to protect St. Joseph Church, which has been going for more than 5 years.

Moreover, during the election campaign the BChD used Christian rhetoric and appealed to Christian values. They attracted support of active believers, including Orthodox ones, who, for the first time, had an option to vote for a candidate-believer. A similar situation could have occurred in 2001 when Leonid Kalugin, the then director of Atlant Inc. (refrigerators plant) made an attempt to be nominated as a Presidential candidate but did not gather 100 thousand valid signatures. In 2010, thanks to a relatively free campaign, the BChD managed to reach a wide group of believers, which used to be, especially the Orthodox ones, faithful Lukashenko's supporters. It is difficult to say if the party managed to break the stereotype of supporting the regime and denouncing the opposition among the Orthodox, but its role in this process is obvious.

We want to emphasize that these changes did not affect the people who generally call themselves "Orthodox"; it only applies to active church members, people of the "ecclesiastic subculture", so to say.

It is peculiar that heads of different denominations "keep silent" about the BChD and its leaders. Neither Orthodox, Catholic or Protestant leaders denounce the party that positions itself as "Christian". True, there is some "distancing" from the party, especially on the Catholic side: Metropolitan Kondrusievich in his interview for newspaper *Belarus Today* about St. Joseph Church denounced politicization of its defense; priest Yury Bark, who expressed himself favorably about the BChD, was expelled from Belarus. But we do not consider these facts public dissociation. The state and its media were even forced to substitute "the voice of the Church" with a foreign one: in 2009 BT (Belarusian TV1) used the words of deacon Andrey (Kuraev) to discredit the BChD and show that the Church does not support it. But the BOC media relations executive openly denounced Kuraev. In 2010, the authorities had to use words of the German cult expert Thomas Gandow. His answer concerning the BChD for *7 dnief* (*7 days*) daily was so vaguely formulated that it could be interpreted as criticism.⁵⁹

Some Protestant activists and religious organizations openly supported the party, e. g. the New Life Church, Pastor Uladzimir

⁵⁹ http://7days.belta.by/7days_plus.nsf/All/9D719891F20A839BC2257736004DFDAB?OpenDocument

Kachahur from Novogrudok (BChD member), and others. We should say that Protestants grew in their general critical attitude towards the regime rather than in support of any particular political force, as we can infer from Sergey Khomich's, bishop of the Union of Christians of Evangelical Faith (UCEF).⁶⁰ In general, the critical attitude of religious leaders to the present regime is much stronger than their support of the BChD as a political party: i. e. protests do not necessarily turn into support of a particular political party though there is some correlation here.

Forecast

December 19th and the following repressions show that in 2011 the pressure on the civil society in general and the religious sector in particular will increase. The new law *On non-profit organizations*, if passed in its actual wording, will become the main legal and institutional tool of oppression of and worsen the position of religious organizations.

On the other hand, the regime will have to look for legitimization in the international arena, and religion can become an easy mechanism for that. Lukashenko has already paid the most scandalous visits — to Rome and Constantinople, he has nothing surprising in reserve. Hence, old issues, especially that of the non-signed concordat, might be raised. During the year it might be in development and "at the last stage", but it is unlikely to be signed.

As for relations with denominations, if Orthodox and Catholic priests dare express any "oppositional" views, state organs will pressure senior clerics with arguments that engagement in political life violates Belarusian law. Nevertheless, it is also probable that pro-regime priests will be exploited as "voice of the Church". For example, Mikhail Morgulis, representative of the Protestant *Spiritual Diplomacy Foundation*, congratulated Lukashenko on his victory at the post-election press conference on behalf of Protestants.⁶¹ Archpriest Feodor Povny might make another attempt to the Council of the Republic; his influence in the BOC will grow during 2011. Lukashenko will try to build relations directly with the Moscow Patriarchate rather than through the Belarusian Exarchate.

⁶⁰ http://www.youtube.com/watch?v=OWvZIE1k6Vk&feature=player_embedded

⁶¹ <http://baznica.info/informatsiya/dukhovnaya-diplomatiya-na-vyborakh-group>

The number of church leaders criticizing the Belarusian authorities will grow in all denominations. Civil awareness among believers will grow at the level of religious "civil society" rather than at that of top hierarchs. It will involve not only political but also social, legal and moral issues. The number of grassroots initiatives will grow.

Orthodox culture classes will not be widely introduced into the school curriculum, though this question will be widely discussed in 2011 again.

BELARUSIAN EDUCATION: A SHORT-TERM VICTORY OR A LONG-TERM LOSS?

Svetlana Matskevich

Summary

Belarusian education in 2010 after the end of the interrupted reform of higher school continues to stagnate. Trying to perform according to the standards dictated by the Ministry of Education the educational establishments lose creativity and strategic prospect in their work and confine themselves more and more to formalization and standardization tasks. As a result, even having high indices of population involvement in the educational system, the training quality of secondary and tertiary schools remains the object of criticism from both students and the country leaders.

The major event in the educational sphere in 2010 was the adoption of the *Education Code*. Despite the attempt to imitate the discussion of this document among the interested public, its final variant does not include the additions and remarks made by civic organizations and civil initiatives.

Last year the third sector initiatives in the field of alternative education continued to develop but they are of local character and cannot influence the state of the Belarusian education in general.

Tendencies:

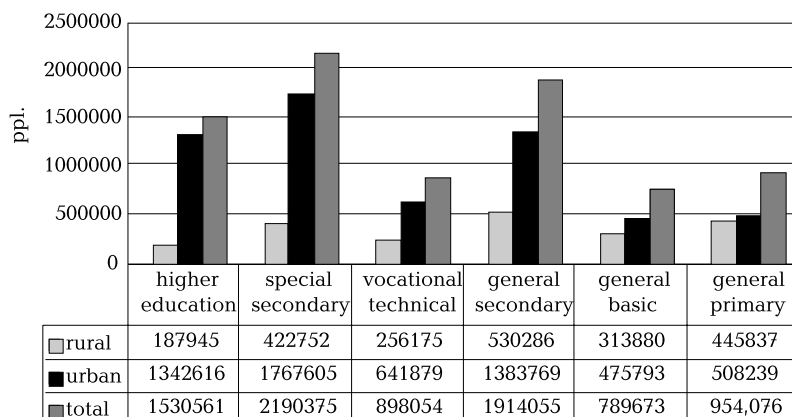
- Quantitative and qualitative indices in the educational system decrease: the number of pupils and teachers at schools decreases, the former structure is preserved, ideological content of education remains invariable;
- The involvement of people over 25 into the training process decreases;
- The state remains a monopolist in the educational field and using its position to simulate dialogue with other subjects of education;
- Adoption of the *Education Code* in 2010 did not promote dialogue between the state and civil society on educational problems at all;
- Joining the Bologna process acquires a technical rather than a strategic character;
- Educational projects available in the third sector are not numerous and isolated; they cannot influence essentially the state of affairs in the educational system of Belarus.

Is transition from quantity to quality possible?

In the practice of educational system analysis there is a stable tradition to begin with determining quantitative indices of an educational level of the whole population. We will not depart from the tradition.

After the population census held in 2009, the data concerning education were published (Fig. 1). It should be noted that such information was not available for a long time since the previous population census of 1999: the educational statistics basically was conducted in educational institutions or in the field of employment, instead of among the population as a whole.

Figure 1. Education level of the population of Belarus (aged 10 and over)



Source: National Statistics Committee, 2009¹

It is necessary to make efforts to estimate the educational level in Belarus not in absolute, but in relative indices and, moreover to provide their substantial interpretation. For example, is 1,530.5 thousand people with higher education a big or a small number for a country which successfully overcame an economic crisis and choose the path of innovative development? Does this fact mean that 1.5 million people have a high standard of living and form the cultural layer of the population that defines developmental trends of the country?

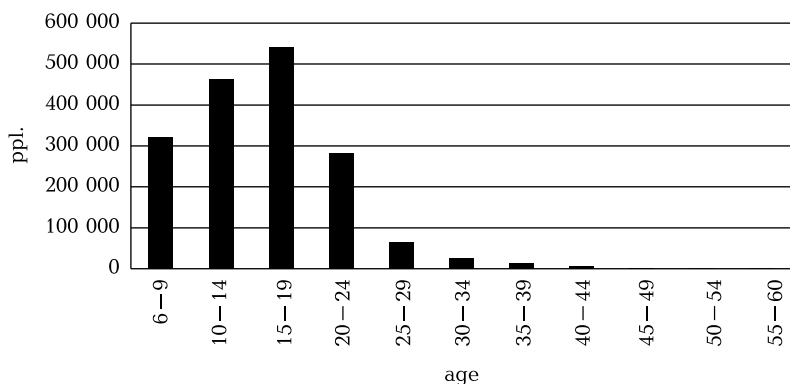
According to the population census, out of 7,246.2 thousand people aged from 6 to 60 about 1,719.8 thousand people (23.7%) received training in educational institutions on the territory of the country. Out of them 26.2% — are in the system of higher education, 9.8% — in special secondary education, 5.7% — in vocational schools

¹ See: <http://belstat.gov.by/homep/ru/perepic/2009/itogi1.php>.

and 58% — in general secondary education. Training captures almost all groups of the population. Basically, it is the young generation aged 6 to 24 that receives the education.

The involvement in education decreases for groups of the population aged 25 and over and practically drops to nothing for those aged 60 (Fig. 2). Global tendencies such as "Life-Long Learning" remain a goal for the future rather than a present fact.

Figure 2. Age groups of people trained at education establishments



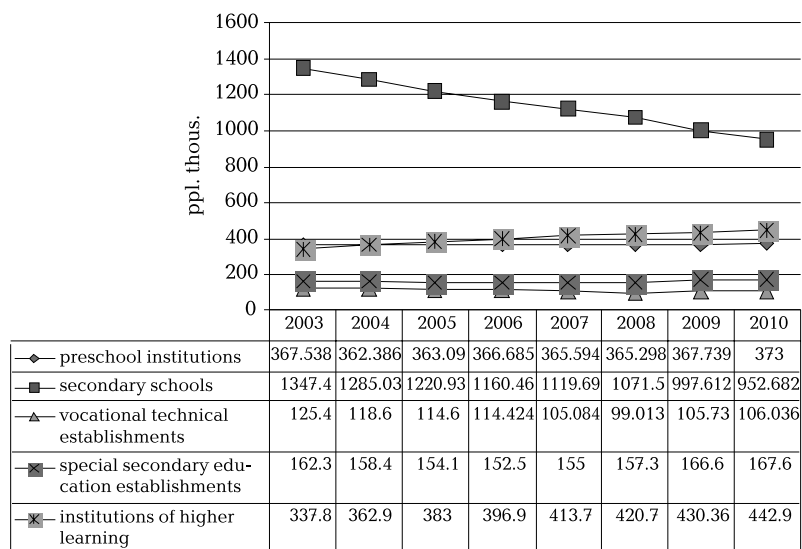
Source: National Statistics Committee, 2010

According to the results of the population census the data about distribution of the population from the point of view of command of the Belarusian and Russian languages were obtained. About 53.2% of the population called Belarusian their native language, 41.5% called Russian their native language. However in daily communication only 23.4% of the total number of population uses Belarusian, Russian is used by 70.2% of the population. These data brightly testify to the fact that during the whole period of the country's independence the program of Belarusization in the education system was not placed on a broad footing, and it is unknown whether it will be brought into the agenda in the near future.

As of the beginning of 2010/2011 academic year there were 4,097 preschool institutions, 3,584 day state comprehensive schools, which is by 72 establishments less than last year, from them 212 — grammar schools, 32 — lyceums. Besides, at the beginning of the academic year 9 private educational institutions operated in the Republic (the number of pupils — 558).

Analyzing the official data of Main Information and Analytical Centre of the Ministry of Education of the Republic of Belarus, it is possible to fix an obvious tendency towards the decrease in the number of pupils of comprehensive schools. The principal cause of such reduction is the demographic factor. An attempt to compensate consequences of the comprehensive school reform (1994–2008), the change of planning and decision-making at the governmental level about the number of budgetary and paid places at the educational establishments led to an insignificant increase in the number of students at technical training colleges and special secondary educational establishments and to a powerful gain of students at the institutions of higher education (about 12 thousand per year) (Fig. 3).

Figure 3. The number of students at educational institutions of Belarus



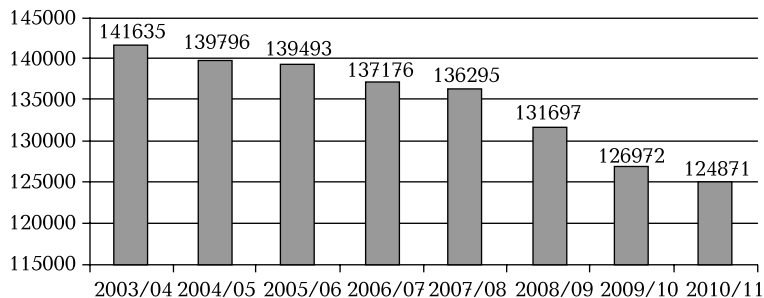
Source: Main Information and Analytical Centre of the Ministry of Education of the Republic of Belarus, 2010²

The number of teaching employees at comprehensive schools decreases (Fig. 4), the number of higher-education teaching personnel

² See: <http://www.giac.unibel.by/ru/main.aspx?guid=16281>.

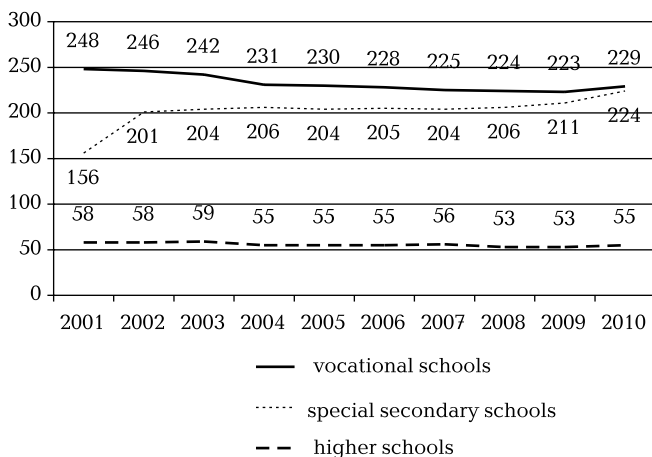
increases a little (from 22,542 in 2002/2003 to 24,451 in 2009/2010 academic year). On average, the nominal accrued salary of teaching employees was BYR 881,934³.

Figure 4. Pedagogical staff of the day comprehensive schools



Source: Main Information and Analytical Centre of the Ministry of Education of Belarus, 2010

Figure 5. The number vocational training establishments



Source: Main Information and Analytical Centre of the Ministry of Education of Belarus, 2010

³ See: <http://belstat.gov.by/homep/ru/indicators/wages.php>.

According to the indices, the vocational training system is characterized by stability (Fig. 5). As of 2010/2011 academic year, it includes 222 state vocational schools and 7 private ones, 202 state special secondary education establishments and 12 — private ones, 45 state higher educational institutions and 10 private ones.

On the whole, over the last 10 years the structure of the education sphere and the control system did not undergo essential changes in Belarus. Such structural stability, on the one hand is justified under the conditions of mass education, whose process is provided by certain standards, publication of textbooks, material and information equipment of educational institutions, etc. But, on the other hand, the absence of tendencies of development and updating in education, conceptual and strategic uncertainty in the conditions of global development generate social and economic threats. This has already become obvious both for consumers of educational services and for subjects of the labor market, scientists and politicians.

The problem of the quality of Belarusian education that has been discussed throughout the last 5 — 6 years remains unsolved. The main reasons for such a long stagnation is an excessive bureaucratization of the education system, the state monopoly in educational services, simulation forms of social partnership and market relations in this sphere. Existing conceptual and scientific standards concerning the quality of education, the attempt to use international quality standards ISO 9000 cannot be adequately integrated into the current Belarusian education system if out-of-date stereotyped and ideological principles of education management are preserved. Such duality (on the one hand, there are certain standards, on the other hand — the corresponding control system is absent) leads to the discredit of the whole "Quality Management" campaign.

Working out and introduction of the Quality Management System (QMS) on the basis of international standards are quite productive for mobilization of the resource available in educational establishments, for streamlining and ordering of internal activity of an organization. But the main condition of effective introduction of such system is free market of educational services, competition, academic freedoms, economic independence of educational institutions and reflective attitude of administrations and councils of the institutions of higher learning to formation of their own strategy and policy. Application of the standard in management cannot replace in any way the processes of "cultivation" of a new human potential and generate new subjects of development in education. On the

contrary, the introduction of standards disables an administrative reflection, in many respects deprives of independence and consolidates the principles of the Soviet administration managerial control, the essence of which is to act according to stereotypes.

As such standards are introduced into the educational institutions, the air of freedom and creativity disappears there. Universities cease to be universities inherently. At schools the prestige and value of knowledge falls. Under these circumstances, teachers need not think how to improve sending the message and essence of the courses — it is more important to have enough time to give all lectures, to write the plan of academic and educational activity, to raise formally the level of their skills. For a student it is important to pass tests or examinations, “to get a wallpaper degree”, rather than to join the professor in a discussion, to understand a problem in its essence. Indices of pedagogical and educational activity will be fulfilled but the necessary quality and content will not appear. In the humanitarian sphere where education also belongs, the consequences of a formalistic approach will come in due time. It is safe to predict that prestige of Belarusian diplomas of the higher establishments will decrease in comparison with the Russian and foreign ones, that the Belarusian school leavers will continue their education in other countries.

In 2010 the new fashion in education focused on quality, can be considered as an attempt to transfer administrative activity from the level of strategic management, program development and substantial aspects to the average level of administration and standardization. The Ministry of Education and other state executive power bodies should be engaged in both activities. But they do only what they can⁴.

Education and politics

The year 2010 was not only the year of quality, stable functioning, regulatory actions and standardization for education. It was the year of traditional participation of educators in the election campaign. Politicians are inclined to see the main administrative resource in the education system — thousands of teachers work in election committees, voting precincts are located in educational institutions. Through

⁴ For the results of work of the Ministry of Education in 2010 and main tasks for 2011 see: Report of the first Deputy Minister of Education of Belarus Aleksandr Zhuk // [Electronic resource] Mode of access: <http://minedu.unibel.by/main.aspx?guid=-42283>.

schools and kindergartens it is possible to carry out efficient interaction with the population, parents and students, to wage PR campaigns and other actions. The authority actively uses this resource. Alexandr Radkov, the Minister of Education and at the same time the leader of the public association Belaya Rus (White Rus) headed President Lukashenko's pre-election campaign team. This fact did not surprise or confuse anyone, either politicians or representatives of the civil society.

Article 12 of the Education Code declares a completely different approach to the political activity in education establishments: "In educational institutions of Belarus the activity of political parties or other public associations whose aims are political, also the children's, teenage or youthful associations that act exclusively on the basis of charters of such parties or associations is forbidden". Opposition parties and non-governmental organizations become by default included in the blacklists of the Ministry of Education, as well as certain teachers and professors who received an unspoken prohibition to practice. The interdiction does not apply to the organizations that are under the auspices of the state. Under the conditions of passivity and adaptability of the academic community and control of the management system over thinking, cynical and authoritative management style starts to prevail in educational institutions. Earlier adopted laws are rewritten to suit certain conditions of administration and control.

In December 2010, the Council of the Republic adopted the final variant the Education Code⁵, which evoked ambiguous reactions of public organizations, business structures and the expert community. Within the context of the public initiative of the educational and human rights non-governmental organizations created in the middle of the year attempts to publicly criticize the Code project were undertaken and the written requests were sent to the Parliament. However, the deputies' response can be estimated as nonprofessional if to put it mildly. The reasoning "people will not understand what informal education is" testifies to the preservation of the Soviet administrative methods of communications or to a deliberate unwillingness to join the dialogue with the representatives of the civil society and independent experts.

⁵ <http://www.president.gov.by/press110548.html>; http://www.belta.by/ru/all_news/society/Sovet-Respubliki-prinjal-proekt-Kodeksa-ob-obrazovanii_i_536916.html

Last year an encouraging factor for renewal of democratization processes in education was some thaw in relations between Europe and Belarus, development of the Eastern Partnership program and other international educational programs. Many public educational organizations of Belarus considered the Eastern Partnership as a chance to start a dialogue between the civil society and the state including the education problems within the context of the fourth thematic platform "People to People". The National platform of the Eastern Partnership Civil Society Forum whose leaders publicly declared their adherence to dialogue and law norms⁶ is created; the process of the working out of road maps in the frameworks of thematic platforms began⁷.

Bologna process: a matter of technique

In 2010, the president and the Belarusian government changed their attitude towards the Bologna process several times. At the beginning of the year, Lukashenko rejected the suggestion of the Ministry of Education to enter the Bologna process. Then on June 7th at the meeting concerning higher school development and the quality of preparation of specialists, he demanded a more detailed study of the question from the Ministry. However, at any outcome the president was convinced that "it is necessary to keep the present education system". The Ministry of Education tries to suit such directions, ascribing to the Bologna process the features in the logic of evolutionary character: "The Bologna process does not demand unification and submission, sharp revolutionary steps alienated from national contexts. What is important is a considered, complex, flexible strategy of an evolutionary development of education aimed at the increase of its quality"⁸.

It is also stated that the country that enters the Bologna process is not supposed to carry out a number of principles (most likely, it is academic freedoms that are meant). Thus, the belated inclusion of Belarus into the international educational space is declared to be only a technical matter. That is, it is necessary to prepare a package of documents, to create an anonymous expert community, to take part

⁶ <http://eurobelarus.info/content/view/4856/164/>

⁷ <http://eurobelarus.info/content/view/3998/164/>

⁸ A. Zhuk *Higher Education of Belarus: from the Bologna process to the European space of higher education* // [Electronic resource] Mode of access: <http://minedu.unibel.by/>

in events and to report about the improvement of quality and increase in number of foreign students etc. The process goes on but, as usual, not on a program but administrative level.

Independent experts in the sphere of education V. Dunaev, V. Matskevich, A. Kozulin, etc. expressed their concern in connection with this succession of events⁹. It is obvious that without a widespread public discussion, the participation of the academic and student's community in the discussion and the control of the civil society over Belarus' entering into the Bologna process the process itself can turn into a show or a phony act.

The third sector: reaction or strategy?

Besides official programs a number of independent alternative platforms and projects are created in the educational sphere. On the basis of the Humanitarian Technologies Agency and Social Innovations Center under the direction of the philosopher Vladimir Matskevich the constant methodological seminar¹⁰ functions. In the frameworks of this seminar the idea of cultural policy and strategic game on university problems are developed, the club "Belarusian Philosophical Space" (Paval Barkouski, etc.) works¹¹. The process of creation of Universities of the Third Age, in particular on the basis of the non-governmental organization "Third Sector" (Hrodna)¹² or the Social Service Territorial Centre of Lenin city district (Brest) is developed. Scales of student's and academic exchanges and study placements broaden¹³.

From time to time the education questions are discussed in the context of economic problems and labor market development. International experts (the European Education Foundation, the World Bank), Belarusian business structures (Institute of Privatization and Management, the consulting company Zdes i seichas ('Here and Now') etc.), analytical centers (Humanitarian Technologies Agency, Center of European Transformation, BISS, "Strategy", Mises Center etc.) take part in this discussion. International programs such as

⁹ See: http://www.zautra.by/art.php?sn_nid=5756&sn_cat=19; http://belapan.com/archive/2010/02/08/eu_eu1928/; <http://www.aif.by/ru/articles/social/item/12677-evropa.html?tmpl=component&print=1>.

¹⁰ See: <http://methodology.by>.

¹¹ <http://www.prastora.org/>

¹² <http://uzv-hrodna.blogspot.com/>

¹³ See: <http://adukacyja.info/news>.

Erasmus Mundus, TEMPUS continue to work in Belarus but the scale of their activity does not increase.

After the events of December 19th, the Kalinouski Scholarship Program ("Solidarnasc" Center) received a new impulse and became very topical. Human rights organizations (the Center for Legal Technologies, *Viasna-96*) and independent associations of journalists (BAJ) continue their mini-educational programs.

With all diversity of processes, in general it is possible to say that the activity of the third sector in the sphere of education has a chaotic and reactive character. Independent educational structures lack a unified strategy and the program of education development in spite of the fact that the sufficient intellectual resource is concentrated in this sector. The factor of help and support from the international funds plays a huge role in adjustment and work coordination in non-governmental sector of education. However in relation to Belarus activity of these foundations should be reformatted and rethought taking into consideration the specificity of the situation in the country.

Conclusions and forecast

Belarusian education will continue to evolve according to variable demographic, technological and social factors. External political and economic processes will periodically "stir up" the education system. Probably, it will lead to some revision of the basic ideological and conceptual grounds, however not to their essential change or to a start of a new round of education reforming.

The *Education Code* accepted in December 2010 will cause some confusion among the structures of post-secondary education as of September 1st, 2011 they will have to function according to the new rules.

It is possible to predict with confidence the tightening of administrative and bureaucratic mechanisms of management at all levels, which sooner or later will balance and stabilizes the system, will bring the real practice of education into accord with public and private norms.

Entrance into the Bologna process will not essentially change the quality and structure of the education system, but it will substantially shake up the activity of administrative structures. Most likely, the education system management will suggest various plans and programs on modernization of higher and vocational education, motivated rather on the level of additional financing than on the level of content.

Non-governmental subjects in the system of the Belarusian education, academic community, noncommercial and business organization can be competitive with the state only under the condition of the common strategy, the concept of development and joint actions on consolidation. Otherwise, the further state monopolization of the educational sphere and stagnation of the system on the whole will prevail.

SCIENCE: NEW GOALS INDICATE DECLINE

Alexandr Gritsanov

Summary

Throughout 2010 the country's leadership, as well as heads of research institutions answerable both to the Academy of Sciences and to sector ministries, were working towards narrowing the traditional range of goals for Belarusian science. The first signs that budgetary financing is being reduced appeared in 2010 and have turned more apparent since early 2011; therefore, the officials responsible for "national science and scientific services" kept "specifying" the list of promising research areas and "tailoring" the amount of financing for science.

Relatively long-term research projects were practically excluded from planning and denied financial support. Only short-term projects with guaranteed quick profits could be developed. As a result, researchers focused on trivial topics and applied and technological developments. Generally, the structure and productivity of scientific research in the Republic of Belarus tend to stay at the level of second-rate industrial corporations.

Tendencies:

- The already scanty allocation for budget-supported science is gradually decreasing;
- Reduced financing can cause a kind of debureaucratization, provided that newly appointed executives have to go through less formalities;
- The staff of research institutions (academic, in the first place) is to be reduced; so far they have been functioning as "social security agencies" for nominally highly qualified pre-retirement scientific personnel;
- Budgetary financing for academic science is being radically reduced, hence, running costs of certain research institutions could be optimized or even reduced.

New goals

On 22 July, 2010 President Lukashenko signed decree № 378 that defines priority areas for scientific and technical development in Belarus in 2011 – 2015. Financial and human resources are to be concentrated in the following research areas:

- Energy and energy saving;
- Agro-industrial technologies and production;
- Industrial and constructional technologies and production;
- Medical science, medical equipment and technology, pharmacy;

- Chemical, nano- and biotechnologies;
- Information and communication, aero- and space technology;
- New materials;
- Rational nature management, resource saving and emergency protection;
- Defense and national security.

Most of these areas are life-supporting and contribute to a better standard and quality of living and national security. The aim of this decision is to steer science and technology towards implementing projects that will create new economic branches producing high value-added, low energy- and resource-intensive products. These measures are to strengthen the national economy and improve the well-being of people¹, according to officials. At the same time, fundamental research, as well as long-term developments that could be of interest for the military-industrial establishment, are gradually leaving the proscenium of Belarusian science. The "military science" institutions in Russia are on the decline and this tendency affects analogous Belarusian institutions.

In August 2010, amendments to the law *On scientific and technical policy* took effect. They provide mechanisms for establishing regional techno parks financed from the national budget under the section "science". Even the presidential administration-printed media *SB – Belarus Segodnya* (*SB – Belarus Today*) "will not dare to predict that techno parks will generate a stream of effective projects as the process requires an effective legal basis, which is only under construction". As a result, of all techno parks established in all regions of Belarus, only the *Technological Park Mogilev* (Mahiliou) is functioning to its full capacity and status, with the Scientific and Technological Park of the BNTU *METOLIT* close by, reads the newspaper.² On 11 August, 2010 the newspaper informed that Valery Tsepkalo, director of the Administration of the Park of High Technology (PHT), reported to President Lukashenko about the PHT's progress in the first half of 2010. He assured that from January to February the volume of software production grew by 140% compared to the same period of 2009.³ Tsepkalo pointed out that the main goal for the PHT is training

¹ Presidential Press Service releases // *SB – Belarus Segodnya* (*SB – Belarus Today*). 2010. 27 July.

² Dralyuk V. List ozhidaniya dlia know-how (Waiting list for know-how) // *SB – Belarus Segodnya*. 2010. 29 May.

³ In 2009 the Park of High Technology innovative technologies sales reached USD 130 mln (obligations being as high as USD 200 mln).

professionals, both at existing universities and at educational establishments to be founded in future. President Lukashenko was also informed about details of the PHT construction. Director Tsepalo underlined that PHT residents have accumulated enough finances to be able to invest them into construction of manufacturing and educational buildings. The PHT is to be put into operation by 2014.⁴ All in all, according to A. Lukashenko, Belarusian "science should be self-supporting and make money"⁵. This means that in the future fundamental research will be abandoned. This decision is undoubtedly disputable. However, it signals that the organizational structure of Belarusian science as a heritage of the Soviet model cannot be preserved any more.

Problems

Administrative controls in the applied sciences and innovation will be given more power

During the discussion about the PHT, Lukashenko demanded that construction works in Minsk be finished by 2014. In reality, over the past 5 years, i.e. since the Park was established, only 1 building has been overhauled on its territory, consuming the total of BYR 3.8 billion from the national budget and BYR 50.5 billion of investments. President Lukashenko promised to exercise personal control over this project for the period of 2011 – 2016.

The results of the *State program for innovative development in 2007–2010* (SPID) highlight the disturbing tendencies in the Belarusian "high-tech" economy. Just as in Soviet times, administrative methods take the lead in its implementation, i.e. scientific and technological advances are "imposed" on the industry, which is resistant to innovation.

According to the Council of Ministers resolution No. 1713 as of November 23, 2010⁶, executives guilty of failing to implement innovative programs will be punished. The appendices to this document comprise several lists. Appendix 1 enumerates innovative projects in which the facilities have not been commissioned or the production has not been mastered by the target date. Appendices 2 and 3 present lists of innovative projects where (2) the estimated

⁴ See: *SB – Belarus Segodnya*. 11 August, 2010.

⁵ See: *SB – Belarus Segodnya*. 31 December, 2010.

⁶ See: [http://www.pravo.by/pdf/2010-288/2010-288\(040-058\).pdf](http://www.pravo.by/pdf/2010-288/2010-288(040-058).pdf).

capacity has not been achieved and (3) working stages have been behind schedule.

According to the State Committee on Science and Technology (SCST), as of October 1, 2010 in 28 innovative projects commissioning the facilities or mastering the production are behind schedule. For example, the Ministry of Agriculture and Food is in charge of 7 projects from this list, *Bellesbumprom Concern* (forestry and mills) — of 5, Minsk regional executive committee — of 4, Ministry of Industry, *Bellegprom Concern* (light industry) and Vitebsk regional executive committee — of 2 projects each, Ministry of Trade, *Belbiopharm Concern* (pharmacy), *Belneftechim Concern* (oil and chemistry) and Gomel regional executive committee — of 1 project each.

In 9 innovative projects the estimated capacity has not been achieved: 2 each in those of the Ministry of Agriculture and Food, *Bellegprom*, and Vitebsk regional executive committee; 1 each in the Ministry of Architecture and Construction, *Belbiopharm*, and Mogilev regional executive committee. Working stages were behind schedule in 40 innovative projects.

The Council of Ministers resolution orders the state organs' executives to take personal responsibility for commissioning the facilities and mastering the production, reaching the estimated capacity and completing the working stages of the innovative projects. These actions should meet the deadlines determined by the plans of innovative development in branches and regions.

Besides, the resolution has provisions that heads of state-level public administration organs, Academy of Sciences, regional executive committees and Minsk city executive committee, the Administration of the Park of High Technology as clients of state programs are authorized to bring disciplinary proceedings against public officers. The penalty range is wide — up to termination of the employment contract for failing to ensure that the facilities are commissioned by the target date. The resolution foresees a penalty if there is an ungrounded refusal to implement innovative projects in the State program.

True demands of the "sci-tech sector" of Belarusian industry

According to experts, the implementation itself of the *Program of innovative development* will demand until 2015 USD 32 billion⁷, with

⁷ Website *Belorusski partisan*. 1 February, 2011.

half of the amount to be foreign investments, reported Mr. Voytov, chairperson of the State Committee on Science and Technology (SCST), at the meeting of the Presidium of the Council of the Republic, 1 February, 2011. The SCST initiates an innovation and investment bank and a national technological development fund to be established with the purpose of backing small and medium businesses (SMBs).

In 2011, science is to be financed from the state budget by 30% more compared to 2010⁸, says Pyotr Vityaz, first deputy chairperson of the Presidium of the National Academy of Science (NAS) of Belarus. "These allocations are insufficient; we are aware of this fact and admit it. However, we agreed on this amount with the head of the NAS so that next year science does not lose more. We are positive about that,"⁹ said Minister of Finance Kharkoviets.

Commenting the law on the budget for 2011, Mr. Vityaz pointed out that relief from the income tax and taxes on manufacturers are not enough to boost innovative scientific research. Therefore, the Belarusian Academy of Sciences is interested in raising the issue of tax relief for non-budget investments into science, reports *BelTA*. Mr. Vityaz underlined that at present scientific institutions have to reach a serious goal of drawing all the finances allocated for science development in 2010, though there are certain difficulties in the aspect of upgrading the material and technical basis¹⁰.

*Belarus: typical deadlocks of modernization and innovative economy*¹¹

In 2006, Belarus witnessed a pompous presentation of a 5-year *State program of technical infrastructure development*. The announced goal was to supply the national banking system with domestically manufactured bank cards. The initial goal was to increase the ratio of non-cash transactions with retail payments up to 30%, while the high-technology enterprises of the Ministry of Industry were to have manufactured 3.4 million bank cards.

What is the result? The amount of non-cash payments has hardly gone beyond 13%. As for bank cards, there have been produced

⁸ I. e. the allocations of BYR 500 billion are to be increased up to BYR 650 billion, or USD 200 – 215 million (according to *BelTA*).

⁹ According to *BelTA*.

¹⁰ Website *Belorusski partisan*. 26 October, 2010.

¹¹ See: *SB – Belarus Segodnya*. 11 January, 2011.

slightly over 400,000: only 5% of the 9 million bank cards that Belarusian banks have issued, are domestically produced. Meanwhile, one of the project contractors, Integral JSC (the second being OJSC CNIITU), did not participate in the program. CNIITU's production capacity is 1 million cards of an acceptable quality a year. However, the enterprise was too late and slightly unprofessional to join the marketplace.

Russian and Ukrainian card manufacturers' capacities are 10 million cards a year, with manufacture costs known to be lower than Belarusian ones. Besides, the biggest international payments technology company *Visa* (est. 1972, USA) holds more than 50% of the world card marketplace; with *Master Card*, its American-European competitor, holding other 30%. None of the potential Belarusian bank card manufacturers holds a certificate of conformity to international payment systems. The entrance fee is just a few thousand dollars (plus USD 60,000 to be paid annually). No state enterprise will risk this, though comparatively trifling, amount of money.

In 2010, Integral JSC started producing bank cards of a good quality. However, the Belarusian card always "loses" in tenders, as it is 10% more expensive than the Russian one. Even heads of nominal flagships of the "innovation sector" in Belarusian economy are helpless to break through the wall of the stiff administration system.

Conclusion

In the nearest future, we are to expect lively debates between the bureaucratic establishment and the experts about the possibility to integrate scientific institutions into industrial concerns and major manufacturers. Supposedly, this procedure is "to harmonize science and practice" and "to raise innovation and export potential" of enterprises. These debates are sure to end with decisions that meet official expectations and secure "survival" for enterprises, with no room for any long-term, or even mid-term, projects.

The next 5-year plan will end in drastic change and decline of the system of scientific establishments of the 2010 pattern.

SPORTS: OLYMPIC UPS AND DOPING DOWNS

Boris Tasman

Summary

In 2010, Belarusian sports inched away from the cliff it nearly fell into in 2009. At the Winter Olympics in Vancouver, Belarusian athletes delivered the greatest performance in the short history of the independent nation: they won three medals, including the first gold one ever. The quantitative indicators at world championships in the Olympic disciplines improved (16 medals against 12), while the “quality” was not that high: only two sportsmen joined the ranks of champions. Among the winter sports, freestyle skiing and biathlon have held much promise so far; among the summer sports, rowing and canoeing proved most successful for Belarus.

Track and field athletics and swimming saw no progress. All most promising rowing crews have fallen apart. The men's tennis team dropped out of the second division of the Davis Cup. Freestyle wrestlers and judoists made a step back too. Still, the team sports made considerable progress, and the women's basketball team was among the top four at the past World Championship. The past season was a great success for Belarusian football.

Many medal winners are approaching the age critical for sportsmen: all three Belarusian champions have are thirty or over. Belarusian sports were marred by high-profile doping scandals at the world and European track and field and weightlifting championships once again. The Court of Arbitration for Sport however returned the Beijing medals to hammer throwers Vadim Devyatovskiy and Ivan Tsikhan.

Tendencies:

- Progress at the Olympic Winter Games;
- Achievements quality degradation;
- Critical ageing of Belarusian sports stars;
- Rise of Belarusian football;
- Widespread doping use;
- Aggravating criminalization of Belarusian sports.

Vancouver achievements

The 2010 Olympic Winter Games in Vancouver were the fifth games in the history of independent Belarus and the most successful regarding the results achieved. Two medals came from Lillehammer in 1994 and two were taken in Nagano in 1998. The Olympics in Salt Lake City in 2002 and Turin in 2006 resulted in one medal each. Vancouver was

generous with three medals at once: Alexey Grishin fought his way to Olympic gold in freestyle skiing (men's aericals), Sergey Novikov and Darya Domracheva took silver and bronze in biathlon respectively.

Belarus at Olympic Winter Games

	Gold	Silver	Bronze	Total
1994	—	2	—	2
1998	—	—	2	2
2002	—	—	1	1
2006	—	1	—	1
2010	1	1	1	3

There are three medal places and a gold medal for the first time. Is this success logical or incidental? Freestylers had not come home without medals since 1998. Although only two of them — Alexey Grishin (bronze and gold medals) and Dmitry Dashchinsky (bronze and silver medals) — turned up at the podium, the Belarusian aerial skiing school should be prized for nurturing their achievements. As a matter of fact, five out of six Belarusian freestylers competing in Vancouver reached the finals. However, Dashchinsky, Timofey Slivets, and Alla Tsuper stayed behind the top eight in qualification, while Assol Slivets was the fourth best. So, the accomplishment was quite logical.

Biathlete Darya Domracheva was one of the favorites for Olympic medals, therefore her winning a bronze medal was not unexpected. Her 6th and 8th places in other races just confirm her capabilities. At the same time, Sergey Novikov's silver medal was more like a smile of fortune. His entering the top ten in separate disciplines of the World Cup season used to be regarded as an excellent result. No one expected a medal in the men's biathlon, though. But the national team coaches did a great job when scheduled training thoughtfully to let the athletes get in optimal shape. Lyudmila Kalinchik and Nadezhda Skardino paraded their skills alongside Novikov performing at their best in their entire careers. There is a common opinion that they should thank German expert Klaus Siebert, who has been working with the Belarusian team for a few years now.

The athletes competing in other sports, such as skiing, skating, and short track, shot blank rounds again. Two ski mountaineers trained in Russia for the Belarusian team were quite predictably too far from the top.

It would be natural to expect an advance in speed skating after an open skating rink was constructed in Minsk. Also, Belarus had tasted success in this sport before: Igor Zhelezovsky took silver at the 1994 Games and Andzelika Kotyuga was 5th in 2002. But Belarus preferred pushing ski mountaineering, having no natural conditions, a proper infrastructure, or sufficient experts.

Ice hockey abundantly provided with invested money did not show any favorable results yet. Both the national team and the league have made no headway so far. The national team did not manage to make it through to the quarterfinals either in Vancouver, or at the World Championship in Germany. The youth and junior national teams stagger behind in the top division slipping down to Division One every now and then.

Gross figures and stock list

In Soviet times, targets with respect to two basic parameters were imposed on companies: gross earnings and the line of goods. If the gross earnings target was not hit, an enterprise saw no bonuses. But if the stocks were filled up with goods of each particular type as planned, the bonus money was good. It did not happen too often, though.

As to the total number of medals won during world championships in the Olympic disciplines, Belarus took 16 medals in 2010 against 12 in 2009, or even 19 against 12 if Olympic prizes are considered. The progress is obvious. However, it would be more accurate to compare the results of 2010 not with 2009, but with 2006. The matter is that the number of large-scale sport events is different in odd-numbered and even-numbered years. For instance, rowers, wrestlers, and weight-lifters compete every year, shooters and boxers compete once in two years, while track and field athletes have another schedule: Olympic Games and summer world championships (47 sets of medals each) in even-numbered years, and indoor world championships (26 sets) in odd-numbered years. Therefore, the years 2006 and 2010 are comparable regarding achievements.

World championships

	Gold	Silver	Bronze	Total
2006	6	3	8	17
2010	2	7	7	16

In total, the year 2010 yielded just one medal less than 2006, but the regress is considerable when it comes to gold medals: six gold medals were won in 2006, while on only two athletes — shooter Sergey Martynov and shot-putter Nadezhda Ostapchuk — were above all on the winners' podium four years later. The qualitative regress is as clear as the quantitative progress.

Ageing stars

The quality degradation is not incidental. It is caused by ageing of Belarusian sports stars and poor efforts towards replacement with younger athletes.

Olympic Champion Grishin and World Champion Ostapchuk are over 30 years of age. Martynov has attained 40. Yekaterina Karsten, 38, is the only medal winner in boat racing. Dmitry Kasperovich, 33, is the only prize-winner among gymnasts. Andrey Mikhnevich, renowned shot-putter, who comes up to the podium quite regularly, is 34; pistol shooter Victoria Chaika is 30; legendary rowers Roman Petrushenko, Vadim Makhnev, and Alexey Abalmasov are 30 to 31; European Champion in Greco-Roman wrestling Alexander Kikinev is 31; European Champion in table tennis Viktoria Pavlovich and her sister Veronica are 32.

Hammer throwers Vadim Devyatovsky and Ivan Tsikhan, who took the medals won at the Beijing Olympics back from the International Olympic Committee, are 33 and 34 respectively. In the men's table tennis team, which took silver at the European Championship, three out four players are over 34: Vladimir Samsonov attained 34 in 2010, Vitaly Nekhvedovich is 35, Yevgeny Shchetinin is 40. They will be two years older by the time of the London Olympics.

The situation is critical. It is not that the Ministry of Sports is unaware of this. It is the bureaucratic habitual practice to report on the "here and now" that takes its toll. Therefore, the money is invested not in the reserve, but in those who can get a medal today, at least a bronze one.

And those who can replace the old-timers are quite few. They are rowers Denis Garazha, 22, and Oleg Yurenja, 20; rhythmic gymnast Melitina Stanyuta, 17; weight lifters Sergey Lagun, 23, and Andrey Aryamnov, 22; track and field athlete Andrey Kravchenko, 24; wrestler Timofey Deynichenko, 24... Who will qualify for the 2011 Olympics and win Olympic medals in 2012?

Instant results or chronic disease of Belarusian sports

The Olympic meeting held on April 9, 2010 was dedicated to build-up of replacements of today's Olympic participants. Unfortunately, it was quite ineffective. The decision was made to elaborate a concept of training young athletes. Almost a year has passed but things have not budged an inch.

In 2010, Singapore hosted the first Youth Olympic Games, a rather harmful tournament, which stimulates boosted training of sportsmen of 16 to 17 years of age. First Vice President of the National Olympic Committee Igor Zaychkov said that the sports authorities did not set any medal targets. It turned out otherwise: targets were specified anyway and medals were counted thoroughly. Non-achievers were peppered for the failure to produce the results the sports functionaries looked forward to, while those who distinguished themselves were awarded and panegyriized.

It is generally admitted that only few junior champions keep leading positions in adult league sports. Rushing juniors off their feet, sometimes with the use of pharmacological boosters, alongside practice loads inappropriate for the age, only yields short-term effects. Such intervention quickly results in traumas, diseases, nervous breakdowns, loss of interest in sports, and, as a rule, poorer results or stagnation remote from international standards. This is a chronic disease of Belarusian sports.

In order to remedy the situation, there should be no financial stimulation of sportsmen and coaches for successes in the under-17 and under-19 sports. Most sports officials (as well as coaches) do not care much about the sportsmen's future. They try hard to sponge the youngsters of everything they are capable of.

The story of Baranovich-born track and field athlete Yekaterina Artyukh is a prime example. In 2009, the 17-year-old girl won a medal at the European Junior Championship. In February 2010, she won the Junior Championship of Belarus in hurdle race. However, her doping test run by the National Anti-Doping Agency (NADA) came back positive and Yekaterina was disqualified for three months. The Belarusian Track and Field Athletics Federation and NADA kept the public and international organizations – the World Anti-Doping Agency (WADA) and International Amateur Athletic Federation (IAAF) – in the dark, although the Belarusian sports authorities were supposed to inform them in line with the World Anti-Doping Code.

Artyukh entered competitions as early as May. She did not undergo doping tests until the departure for the World Junior Championship in Canada in July. The pre-departure test result was negative. In Canada, Yekaterina made it through to the finals and won the gold medal in a 400 m hurdles race leaving the others far behind. It became known two weeks later that the doping test of the 18-year-old Belarusian was positive. The world champion was stripped of her title and she was disqualified for two years.

Neither her personal coach Konstantin Tverdokhlebov, nor head coach of the reserve Yuri Moiseyevich, nor the team doctor, nor the Belarusian Athletics Federation chiefs suffered any consequences. On the contrary, Moiseyevich was soon promoted to vice director of the Republican Center for Olympic Athletics Training. The Artyukh case is not an exception, but a regular practice.

Doping controversies

Six Belarusian sportsmen (track and field athletes and weight-lifters) were disqualified or suspended in 2010. Five out of six violations were revealed at world and continental championships. Above is Artyukh's story. An even more sensational scandal erupted few months after the end of the April European Weightlifting Championship in Minsk. Gold medal winner Andrey Artyamov and bronze medal winners Shems-hat Tulyaev and Nikolay Chernyak were reported to have been tested positive for banned drugs.

A synthetic androgen, Proviron, was found in Chernyak's test. Clenbuterol was found in Tulyaev's test. Both are looking at four-year disqualification. Artyamov is suspected of smoking "spice", which contains marihuana. He is suspended for six months. It is notable that none of the three have been officially punished by the International Weightlifting Federation (IWF), although they had to miss the September World Championship.

Seventeen-year-old weight-lifter Vladimir Yakuta won the European Cadet Championship. The doping control authorities detected the anabolic steroid called Metandrostenedione in his test. The sportsman faces the threat of four-year disqualification. So, Belarus had to give back five medals in one year that had never happened before. NADA caught six more violators. All of them were young sportsmen. The habitual use of doping for spurring young sportsmen is one of the major problems of Belarusian sports.

In this context, the decision of the Court of Arbitration for Sport in Lausanne to give Olympic medals back to Belarusian hammer throwers — silver to Vadim Devyatovsky and bronze to Ivan Tsikhan — is somewhat a consolation. The Court recognized that the Beijing laboratory did not fully observe the established procedure when handling the samples, therefore the International Olympic Committee's resolution on disqualification of the Belarusians was revoked.

Symptoms of degradation

Some other facts show that the climate in Belarusian sports is far from being favorable. For example, 11 out of 18 rowers left the national women's boat racing team. Winners of the silver medals of the 2009 European Championship in women's eights Nina Bondareva, Natalia Gavrilenko, Zinaida Klyuchinskaya, Natalia Koshel, Olga Plashkova, and Olga Shcherbachenya-Zhilsкая refused to work under head coach Vladimir Sinelshchikov. Another three, Nadezhda Belskaya, Natalia Privalova, and Marina Maslova, are done with sports seeing no future in their rowing careers. And they all are medal winners. The discontent was caused by the disappointing results against the background of excessive physical loads and the lack of confidence in Sinelshchikov. Two men's rowing fours known for their achievements fell apart too.

The men's tennis team dropped out of the second division of the Davis Cup after losing to Italy and the Netherlands. The drubbing taken from the Italians (0-5) was even more painful considering the conflict between captain and head coach of the national team Vladimir Volchkov and team leader Vladimir Ignatik, which occurred right on the tennis court.

Head coach of the national track cycling team Stanislav Solovyov was found having improperly used budgetary funds to the amount of over 50 million Belarusian rubles, which he has to pay back now. Last August, after all doping troubles, the road police detained Olympic champion Andrey Aryamnov for drunk driving for the third time in one year and a half. He paid a 10.5 million fine and settled the question.

The National Track and Field Athletics Championship in Grodno saw ugly manipulations in several disciplines. Specifically, according to eyewitnesses, judges added one centimeter to a triple jump of one of the sportsmen, who beat the favorite in this way. The protest that

followed was simply shelved. The matter is that the jump length was measured in favor of the trainee of the national team's head coach. The wind speed of 1.7 meters per second was entered in the record during the women's 100 meters race. The actual wind speed was no less than 4.0 meters per second. Yelena Nevmerzhitskaya led the European standings with 11.05 seconds, and then failed to qualify for the second round with an embarrassing 11.63 seconds at the European Championship one month later.

Following BATE

Football lives its own life not connected with other sports in any way. Perhaps that is why Belarusian football players reached an all-time high. The national team started the qualifying competition for UEFA Euro 2012 nicely and beat the French and Albanians one-nil and two-nil respectively and managed draws against Romania and Luxembourg. Belarus finished the year second in Group D below France.

The under-23 football team crushed the Italians and qualified for the continental championship finals. The reigning champion of the Belarusian Premier League, FC BATE Borisov, reached the play-offs stage in the UEFA Europa League for the first time. Dnepr Mogilyov, Dynamo Minsk, and Torpedo Zhodino did a good job too. It looks like the reform of the national championship — particularly the reduction in the number of clubs down to twelve — was successful.

The women's national basketball team has been doing well representing the country at top-level tournaments for the fourth season in a row. Playing at the World Championship for the first time the girls reached the semifinals. Back home, they addressed the Belarusian Basketball Federation Executive Committee with an open letter demanding to arrange a decent training camp "for high-grade practicing." "In our opinion, normal training conditions mean suitable locker rooms, a massage room, a team's physician's office, a coach room, and a properly equipped workout room. Over the past years, the national team has not been given even a remotely suitable sports center for permanent and long-term use... The outfit quality gives rise to unfavorable criticism. Therefore, it makes sense to think over the improvement options," reads the letter.¹

¹ See *Charter'97* // <http://www.charter97.org/ru/news/2010/10/22/33170/>

Conclusion

The success at the 2010 Olympic Winter Games in Vancouver was due to two small groups of professionals, but it does not attest to the overall progress of Belarusian sports in any way. Neither biathlon, nor freestyle are very popular sports. And in the popular sports like skiing, speed skating, or hockey progress plateaued long ago.

The 15-thousand crowds at hockey matches in Minsk Arena attracted by Dynamo Minsk — Belarus' representative in the Kontinental Hockey League, KHL (this is the official spelling) — is probably the only gratifying thing about ice hockey. The medal advance in summer sports can hardly be explained by the personnel reshuffle in the ministerial offices. Besides, it is highly unlikely that it will last long.

The long-playing leaders of Belarusian sports have reached a critical age. There is no fully prepared reserve and no one seems to be eager to take pains to cultivate young leaders. The large scale doping of potential Olympians is really alarming. Weak and poorly financed NADA is obviously outnumbered in the anti-doping fight.

The total dependence of sports on the national budget is one more acute problem. Sports provisions are gradually tightening up while sports functionaries are working up their appetite.

PUBLIC OPINION: YEARLY DYNAMICS AND CERTAIN RESULTS

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Summary

The economic self-perception of the population at the beginning of 2010 was similar to that of late 2009: thoughts about the crisis and anxiety about the nearest future were dominating. However, by the mid-year evaluation of the economic situation became more optimistic. During the year the total amount of monetary income of the population was growing but this growth was leveled off by rising prices for foodstuffs and goods.

The Belarusians traditionally put their trust in the Orthodox Church and the army. Governmental institutions still enjoy high confidence but the fact of growing mistrust should be pointed out. The ratio of trust/mistrust in state-owned mass media, local authorities, and traditional trade unions is nearly fifty-fifty. Such institutions as the OSCE or the NATO arouse a negative attitude.

The geopolitical choice of Belarusians was changing together with the change of “moods” in Russia-Belarus relations, especially among ardent supporters of the “union with Russia”. As a result, the number of EU supporters or people skeptical about any kind of union is growing.

Tendencies:

- During 2010 the rate of suspense dropped and optimistic views on the economic situation increased;
- The loans taken by the Belarusian authorities that are extending the foreign debt find ambivalent support among the public;
- During the year the total amount of monetary income only marginally outstripped the growth of prices for foodstuffs and products, which remained the key problem for the majority of Belarusian citizens;
- The percentage of people “hesitant” about Belarus’ geopolitical choice has grown;
- The commitment to “European values” has been revealed in Belarusian society, which ensures that throughout many years there has been a stable amount of respondents supporting accession to the EU.

Economic self-perception of people

In terms of economic self-perception of the population, the beginning of 2010 was similar to that of late 2009. Thoughts about the crisis

and anxiety about the nearest future were dominant. Taking part in a sociological survey, more than 80% of respondents answered affirmatively to the question "Is there an economic crisis in Belarus at the moment?" 40% of them mentioned a significant income decrease due to the crisis. The respondents saw the future even gloomier than the present: February-early March survey showed that 65% of respondents expected to reduce consumption, 53% expected income decrease, 28% expressed concern about losing their job.

The actions taken by the authorities that could actually improve the situation in the short-term perspective found support among 50% of the population. For example, the question on foreign loans, which in 2010, by estimates of experts, have increased the external public debt of Belarus by more than 22%, has split public opinion: 40 % of the adult population questioned by sociologists, supports borrowing money by the state, whereas 38 % (practically just as much) are against it (22% of respondents could not give a definite answer). The main arguments of those who see a life buoy in external credits and supports state actions in this direction, are the following: "This is a measure without which we would not have survived during the crisis" (43%); "The loans will help to avoid unemployment and bankruptcy of enterprises during the crisis" (34%). Opponents of the public debt increase put forward their arguments: "People will have to pay off the national debt" (48%); "Belarus will become dependent on foreign creditors" (29%); "We should use internal resources, rather than count on foreign help" (27%).

However, by mid-year, talks about the crisis ceased and public opinion began turning more optimistic about the economic situation, which was especially noticeable during the last months of the year (Tables 1 and 2).

The data in the tables show that the public considered their economic position in the first half of 2010 more negative than that in the second half, both statically (the situation at the given moment) and dynamically (changes over the period). For example, in December 2010 twice as many respondents defined the economic position of their household as "good" and "very good" compared with January the same year. The number of those who assessed their position as "bad" and "very bad" reduced by 1.4 times. On average, by the end of the year the percentage of respondents that saw positive dynamics in their economic position tripled.

These subjective evaluations reflect the official statistics: in 2010 the total amount of monetary income grew by 24.2%

Table 1. Answers to the question: “How would you evaluate the economic position of your household at the moment?” for every month in 2010 (%)

	1	2	3	4	5	6	7	10	11	12
Good and very good	9.1	9.6	11.6	9.7	11.9	10.7	10.0	14.4	16.4	18.3
Medium	64.4	58.6	58.2	63.4	58.9	66.0	64.3	61.5	60.7	61.4
Bad and very bad	24.6	29.6	27.7	23.9	27.2	20.5	23.1	20.9	19.6	17.7
Difficult to answer/no answer	1.6	2.1	2.6	3.1	2.0	2.9	2.5	3.3	3.3	2.8

Table 2. Answers to the question: “How did the economic position of your household change over the last month?” for every month in 2010 (%)

	1	2	3	4	5	6	7	10	11	12
Improved	8.3	4.4	4.8	4.8	5.0	5.5	5.5	8.2	15.7	14.1
Remained the same	64.8	61.6	66.3	67.8	65.3	71.9	66.3	65.2	63.1	69.9
Worsened	24.9	32.2	26.8	24.4	27.0	17.9	24.4	21.8	17.3	13.3
Difficult to answer/no answer	2.1	1.8	2.0	3.0	2.7	4.7	3.8	4.7	3.9	2.7

compared to 2009. The real income (with account of the consumer price index) grew by 15.2%. In December 2010, the real income grew by 10.6% whereas in November it increased by 6.7% and in October — by 0.7%.¹ The evaluations might have been higher but income rise was "eaten" by growing prices. Throughout 2010, rising prices remained the problem that public opinion kept mentioning and calling the sharpest for all groups of population. By the mid-year, the top-10 of the most acute problems looked the following (Table 3).

Table 3. Top-10 of problems in 2010 (public opinion)

Problems	% of respondents
1. High, constantly growing prices for foodstuffs and goods	68.4
2. Alcoholism	43.9
3. Inaccessibility of accommodation	27.3
4. Lack of jobs, unemployment	21.1
5. Uncertainty about one's future and the future of one's children	19.9
6. Moral and cultural crisis	15.6
7. Worsening environmental conditions	15.3
8. Drug abuse, drug addiction	15.2
9. Indifference, apathy in society	12.9
10. Production decline	10.3

As seen above, high and constantly growing prices by far outstrip other problems, taking the first position. This is the only problem mentioned by more than half of respondents.

Therefore, income rise and growing prices were the coordinates for economic self-awareness of people in 2010. Expert Leonid Zlotnikov said that "salaries did grow last year, but it strained the economy. Wages outstripped the growth of productivity and GDP. The prices simply had to grow after this. If the amount of produce grew in the second half of the year by, say, 5% and the wages grew by 35% it means that the income of the population outstripped the growth of the pie that we are eating together"².

¹ See: [http:// www.bel.biz/news/38039/html](http://www.bel.biz/news/38039/html).

² [http:// www.bel.biz/news/38039/html](http://www.bel.biz/news/38039/html).

People's confidence in government and public institutions and organizations

Table 4 below shows the level of people's confidence in government and public institutions and organizations in early 2010.

Table 4. Answers to the question: "What is the degree of your trust in government and public institutions and organizations?"(%)

Institutions and organizations	I trust	I do not trust	Difficult to answer
the Orthodox Church	79.7	11.5	8.9
the army	76.1	14.4	9.5
the National Bank	61.8	27.5	10.7
the President	59.2	25.4	15.4
the Government	58.8	26.9	14.4
the judicial system	54.0	31.9	14.1
the police	53.1	38.1	8.8
the CIS	52.5	26.2	21.3
the Catholic Church	52.1	20.8	27.1
State-owned media	51.5	41.6	6.9
local authorities	48.9	40.0	11.0
the UN	48.0	24.9	27.2
the National Assembly	46.1	32.4	21.5
the Council of the Republic	42.1	32.7	25.1
the Union of Entrepreneurs of Belarus	42.0	30.4	27.6
the House of Representatives	41.6	33.7	24.7
State-controlled trade unions	40.5	38.7	20.7
the World Bank	36.8	27.7	35.5
the Council of Europe	34.1	31.3	34.6
Privately-owned media	33.5	44.6	21.9
the OSCE	28.0	36.1	35.8
Independent trade unions	25.0	37.4	37.6
the Protestant Church	18.7	39.7	41.6
the NATO	14.0	57.4	28.6

Top-10 in the ranking of trust is headed by the Orthodox Church and the army, whose authority with the public is traditional: the vast majority of the population trusts them automatically, without considering this issue, whereas the percentage of mistrustful or doubtful about them is small. But from the third position of the ranking the picture turns totally different. The index of trust remains high

(though not that high as in previous two) — over 50%, but the percentage of mistrustful respondents grows sharply. More than a quarter of adult population mistrust the National Bank, the President and the Government. More than a third mistrust the judicial system and the police; more than 40% mistrust the state-owned media.

The proportion of respondents trusting the institutions in the second ten of the ranking is lower than 50% but higher than 33%. At the same time, the level of mistrust remains high. Generally, the position of these institutions concerning the ratio of trust and mistrust is much worse than that of the institutions from the first ten. For example, 48.9% of respondents trust local authorities but 40.0% — mistrust them; 40.5% of respondents trust state-controlled trade unions but 38.7% — do not; the Council of Europe enjoys confidence of 34.1% of respondents, 31.3% of people mistrust it. Public opinion is balanced in the trust/mistrust aspect in all the above mentioned positions.

Starting from privately-owned media the balance shifts towards mistrust: respondents' trust in independent media, the OSCE, independent trade unions, the Protestant Church, the NATO is lower than mistrust. At the same time, the proportion of respondents with no definite opinion about many institutions increases. It refers even to the UN. Nevertheless, the evaluation stereotype is triggered here: despite lack of awareness, there are organizations towards which public opinion has adopted a steadily positive attitude (the CIS, the UN, the World Bank, the Council of Europe) and organizations with a stable negative reputation (the OSCE, the NATO).

Among public organizations, the Union of Entrepreneurs enjoys the highest degree of trust. State-controlled trade unions have a balanced trust/mistrust position in public opinion. People do not trust independent trade unions rather than trust them, but 37.6% of respondents know nothing about them and, hence, do not have a fixed opinion.

The level of trust in all the media is low (though we should note that, as you know, state and independent media are put into different conditions in terms of accessibility for the audience and positioning). State-owned media have earned their trust (51.5%) and mistrust (41.6%) in total accessibility and intrusive advertising. Non-state media have earned their trust (33.5%) and mistrust (44.6%) in limited accessibility and counter-advertising. So, the difference in trust level is not that big.

As for the influence of *gender* on the degree of trust, women are more inclined to express confidence in government institutions than

men are. Men express mistrust more often. The situation with non-state and international organizations is quite the opposite: men trust them more than women do, whereas women are more likely to express mistrust or find it difficult to give any answer at all.

The influence of *age* on the degree of trust: support of state authorities increases from younger to older age groups. The situation with international and independent media is the opposite: young and middle-aged people trust them more whereas support among elderly people is minimal.

Geopolitical preferences

During 2010, Belarus' relations with Russia and the EU remained the focus of public and media attention, as registered by sociologists. For a number of years NOVAK sociologists have chosen the following question as the key indicator of geopolitical preferences of Belarusians: "What union of states would be preferable for the people of Belarus: the EU or union with Russia?" The answers to this question in 2010 are given in the tables below (Tables 5 and 6).

The dynamics of public opinion on the geopolitical choice can be commented on in the following way. In the first four months of 2010, more than half of respondents supported union with Russia rather than that with the EU; nearly 30% of respondents chose integration into the EU and less than 17% had no fixed opinion about this question. Starting from May the picture changed, mainly in terms of the opinion on union with Russia. Right up until November the percentage of respondents supporting union with Russia declined linearly while the share of respondents supporting the EU, respectively, increased. At the very end of the year, the tendency halted and started changing in the opposite direction.

But the proportion of those who "haven't decided yet" and thus "can't give any definite answer" was increasing even faster than that of supporters of this or that union. In November, their number totaled almost one third (!) of all respondents. One more detail: the percentage of respondents absolutely sure about union with Russia ("No doubt, with Russia") had always been by 1.5-2 times higher than that of those who are absolutely sure that Belarusians should better live in the EU ("No doubt, the EU"). But we see that in the mid-year (June-November) both indicators became equal. It means that the percentage of supporters of union with Russia decreased and they became less sure about their choice.

Table 5. Answers to the question "What union of states would be preferable for the people of Belarus: the EU or union with Russia?" for every month in 2010 (%)

	01'10	02'10	03'10	04'10	05'10	06'10	07'10	10'10	11'10	12'10
No doubt, the EU	6.1	11.0	9.9	8.8	9.4	10.7	11.4	9.7	8.7	11.0
Rather the EU	20.0	20.9	21.3	21.4	25.3	21.8	26.9	25.7	20.1	19.5
Rather union with Russia	42.3	40.5	39.9	34.7	33.3	33.6	31.9	32.8	28.8	32.1
No doubt, union with Russia	14.8	16.2	11.9	18.5	14.4	9.5	10.6	9.1	12.4	16.2
Difficult to answer	16.9	11.5	16.9	16.6	17.6	24.4	19.2	22.6	30.1	21.3

Table 6. Choice between Russian and the European Union

	01'10	02'10	03'10	04'10	05'10	06'10	07'10	10'10	11'10	12'10
In the EU	26.1	31.9	31.2	30.2	34.7	32.5	38.3	35.4	28.8	30.5
In union with Russia	57.1	56.7	51.8	53.2	47.7	43.1	42.5	41.9	41.2	48.3
Difficult to answer	16.9	11.5	16.9	16.6	17.6	24.4	19.2	22.6	30.1	21.3

To interpret the above-described dynamics we just need to "superimpose" survey results on the vicissitudes of foreign policy and foreign economic relations of Belarus in 2010, about which the media reported actively. In May, a first conflict happened, when Russia demanded that Belarus pay its debt for gas: President Medvedev said that Belarus should pay within a five-day period. After that, the notorious media wars Between Russia and Belarus followed. The whole story ended up with signing documents on establishing the Common Economic Space (CES) and abolition of export duties on Russian oil deliveries to Belarus. These events raised doubts among a part of Belarusians about the advantages of fraternization with Russia, made them think more favorably about cooperation with the EU or inspired skepticism about any kind of closer relations at all. But the results that surveys showed could not have been influenced solely by the media. There must be some other deeper value grounds of the geopolitical choice of Belarusians.

Certain results of the survey "Belarus and the world"³ provide material for verification of this hypothesis. The respondents were asked to agree or disagree with a number of value judgments, which was interpreted as acceptance or rejection of values traditionally defined as "European". In the sample representing the adult population of Belarus, a group of respondents was singled out identifying themselves as "Europeans" and consistent supporters of closer relations between Belarus and the EU (13% of the sample). This allowed making some comparison.

The survey results show that 66% of Belarusians think that "the state should promote international contacts of Belarusian students and professors"; 61% consider that "the state should provide more freedom for private entrepreneurs"; 49% share the view that "disagreement with the state policy and public criticism of the authorities cannot lead to ban from the profession, occupied position or expulsion from the educational establishment". More than 40% agree that "the state should respect rights and freedoms of the citizens, even if the latter sometimes abuse them". Almost 40% agree that "people who come to Belarus from other countries have a right to promote their own culture

³ The survey "Belarus and the world: geopolitical choice and security through economics and culture" was conducted in spring 2010 by the NOVAK Axiometrical Research Laboratory and the Belarusian Institute of Strategic Studies (BISS). The representative sample totals 1071 respondents in all regions of the country.

and traditions, different they might be from the Belarusian ones". In the group of "Europeans" the level of political tolerance for all these positions is on average by 15% higher.

At the same time, more than half of respondents (57%) supported tight state restriction on penetration into the country of non-traditional religious denominations. 63% of respondents supported the view that "homosexuality should be prohibited and punished according to the Criminal Code". 42% of respondents would consent to introduction of media censorship if it counteracted spreading extremist ideas. (Among the "European" group these indexes are by 10-15% lower). In general, the answers are contradictory and do not always correspond with the European standards of understanding human rights and political correctness. Nevertheless, we can speak about certain value grounds for the European choice in the Belarusian society. It shows itself in acceptance of corresponding values (it is revealing that "Europeans" show a higher degree of agreement and acceptance).

One of the goals of "Belarus and the world" survey was to find out the degree to which Belarusians consider themselves Europeans. Particularly, how close is the Belarusian national character to the European one. It presupposed comparing stereotypes about the Belarusians and their mentality with those about the Russians and the Europeans (Table 7).

These findings show that public opinion is unanimous that national traits of the Belarusians are hospitality, kindness, and diligence (the overwhelming majority of respondents pointed them out). The top-10 of the Belarusian national character is constituted by modesty, tolerance, spirituality, thoroughness, inquisitiveness, love of freedom (independence), and discipline. All qualities that respondents attribute to the Belarusian national character are positive ones.

Hospitality and kindness bring Belarusians together with Russians (these qualities have the highest rank value for both nationalities). But the difference is also visible straight away: Belarusians positioned laziness second in the Russian national character. Apart from these, the top-10 of Russian national qualities includes: failure to keep promises, enterprise, and nationalism – qualities not typical of Belarusians. As for tolerance and discipline, which were called basic for the Belarusians, they take last positions in the description of the Russian character (17th and 18th respectively).

Professional qualities in the character of Belarusians are also important; they are all positive and describe diligence and the quality of work. Professional qualities of Russians are more negative: place

#2 is laziness, #6 is failure to keep promises; diligence is only on position #7. Therefore, high morality (kindness, hospitality, spirituality) bring Belarusians and Russians together, but Belarusians excel in diligence and discipline.

Table 7. Answers to the question: "Which traits of the national character are most typical of (a) the Belarusians; (b) the Russians; (c) the Europeans?"

Traits of the national character	the Belarusians		the Russians		the Europeans	
	%	rank	%	rank	%	rank
Hospitality	82.8	1	56.7	1	18.0	10
Kindness	81.7	2	48.1	3		13
Diligence	73.1	3	28.1	7	46.9	4
Modesty	54.4	4		16		17
Tolerance	51.4	5		17		14.5
Spirituality	51.3	6	38.2	4	22.2	8
Thoroughness	45.0	7		13	66.6	1
Inquisitiveness	32.2	8	26.9	9	36.2	6
Love of freedom	28.5	9	32.2	5	46.3	5
Discipline	27.3	10		18	63.4	2
Laziness		13	51.7	2		18
Failure to keep promises		14	28.8	6		16
Enterprise		12	27.3	8	56.2	3
Nationalism		16	21.9	10	21.9	9
Greed, money-grabbing		17		14	26.3	7
Racial intolerance		18		15		12
Passivity		11		12		14.5
Envy		15		11		11

From the point of view of Belarusians, the Europeans are thorough, disciplined, enterprising and diligent (all the traits are professional ones). Besides love of freedom, inquisitiveness and hospitality, which bring Belarusians and Europeans together, the top-10 of European qualities is constituted by nationalism and greed, money-grabbing. 22.9% of respondents consider nationalism a Russian feature as well. As for greed and money-grabbing, they are obviously European qualities (16.4% of respondents attributed them to the Russians, 5.7% to the Belarusians and 26.3% — to the Europeans).

The Belarusians differ from the Europeans by their moral and socio-psychological positive features: kindness, unselfishness,

hospitality, diligence and thoroughness in work. But they lack enterprise and energy. Belarusian public opinion sees Europeans mainly as businesspersons. Just like the Belarusians, they are thorough, obliging and diligent in work. But they are enterprising and show initiative as well (which Belarusians lack).

So, generally speaking, who is closer to whom and to what extent? To answer this question an integral index — the index of rank correlation — was calculated. Its maximal possible value is $+1$, minimal possible is -1 . The index of closeness of the Belarusian to the Russian (in terms of the national character) is $+0.3$, that of the Belarusian to the European — $+0.1$. The index of closeness of the Russian to the European is -0.1 . Therefore, whereas the stereotypes of the Belarusian and Russian national characters are close, the difference lies in their correlation with the European character: the Belarusians are to some extent similar and close to them, whereas the Russian character has absolutely no resemblance with the European one.

ECONOMY

MACROECONOMIC SITUATION: GROWTH AT ANY COST

Dmitry Kruk

Summary

The year 2010 saw Belarus gradually being pulled out of cyclical recession owing to the revival of external markets and massive incentives provided by the economic authorities. However, the administration set itself a priority task of reaching ambitious GDP and income growth targets while largely ignoring economic requirements for sustainable and fast-paced long-term economic development. Moreover, the investment expansion scenario formulated by the government, which envisaged measures to restrain the accumulation of structural disproportions, de facto was not implemented, as some of its prerequisites proved unfeasible.

The outcome was twofold: on the one hand, the campaign to reach quantitative indicators resulted in quite impressive GDP and income growth figures; on the other hand, new disproportions in the economy were created, and those already in existence were enhanced. The problems of the foreign account deficit, external debt, money market imbalances, inflationary potential, fragile financial standing of domestic companies had therefore aggravated by early 2011. These problems put a question mark over both current macroeconomic stability and long-term sustainable growth.

Tendencies:

- High GDP and income growth in 2010 was artificially propelled by unprecedented arrangements to stimulate the economy;
- New structural disproportions were accumulated and existing misbalances were enhanced as a result of the campaign to stimulate the economy;
- In the fiscal sector, the “room for maneuver” almost disappeared, which will limit possibilities for the use of fiscal instruments to overcome shocks in the future;
- Stronger imbalances of the current account, widening external deficit, limited possibilities for improving the financial situation at Belarusian enterprises, and low level of savings produce a profound negative impact on prospects of the country’s economic growth.

Introduction

The global recession marked something of a Rubicon for the Belarusian authorities, which can be associated with modifications in the economic expansion model. The chief growth factors Belarus used to

have in the lead up to the crisis (that is, prior to 2008) were the special terms of energy trade and preferential access to the Russian commodity markets. The aftermath of the crisis resulted in major adjustments in competition mechanisms on foreign markets, including Russian commodity outlets, and Belarusian exporters saw their positions deteriorate. Furthermore, for Belarus the recession period coincided with a number of unfavorable shocks that appeared to be more political than economic. Those included changes in the terms of trade in Russian crude oil and substantial increases in Russian natural gas fees.

The active economic policy aimed at surmounting the recession in 2009 impeded the development of adaptive reactions in the economy that could have helped the country deal with the accumulated disproportions. The foreign trade deficit remains the cornerstone of these disproportions, leading to stronger/new additional structural misbalances — a buildup in foreign liabilities, increase in financial dollarization, etc. The excessive efforts to encourage domestic demand in 2009 led to new disproportions, including the accumulation of additional risks in the banking system.

The depletion of old growth factors alongside the accumulation of new structural misbalances affecting the growth prospects therefore reduced the potential of the Belarusian economy.

Given those prerequisites, the economy could have done away with misbalances and got closer to the long-term equilibrium level in 2010 if "natural" economic mechanisms had been employed, the "natural" scenario envisaging a relatively modest GDP growth, from 1% to 4% year-on-year, based on various methodologies.

The said scenario did not fit in the plans of the economic authorities, formulated mostly based on political reasons. The forecast for the election year of 2010 had been presented by the economic authorities back in December 2009; the country's top economic managers were eager to target an 11–13% GDP growth and an increase in real personal incomes by 14–15% on the year. Therefore, the economic theme line of the year 2010 was the race for quantitative economic parameters, with economic policy instruments being the chief factors of macroeconomic dynamics rather than natural economic mechanisms.

Macroeconomic dynamics

The economic policy scenario called for an expansion from the start of the year, similar to what the country saw in 2009. At the beginning

of 2010, the Belarusian economy pulled out of cyclical recession, and given that economic position, it is hard to account for the expansionary policy that the country made its priority. The potential points of macroeconomic misalignment emerged at the turn of 2009, indicating the results of the incentives-based economic policy: foreign trade performance deteriorated, the domestic foreign exchange market saw a deficit that rapidly expanded, the ruble exchange rate pressures built up, and so did inflationary pressures. The government was well aware of the corresponding risks and sought a balance between the political reason for boosting GDP growth and the need to minimize the accumulated macroeconomic disproportions. Under the circumstances, in a bid to work out a compromise, the authorities opted for capital investments as a priority component of aggregate demand. Below are the key ideas of the government's macroeconomic dynamics scenario.

Firstly, a growth based on investments had a potential for facilitating a long-term growth in productivity, thus contributing to the resolution of some structural economic problems.

Secondly, a growth in investments seemed the most realistic plan, because the government kept to itself direct instruments to stimulate the investment activity of companies, especially budget financing, promotion of bank credit, etc.

Thirdly, this scenario envisaged restraints of accumulating disproportions at the macro level, primarily the additional foreign trade deficit, through administrative reductions in the domestic demand elasticity of import. For instance, by using its levers to shape the investment policy of the non-financial sector, the state is in a position to channel financing primarily into the investment projects that require minimum spending on imported investment products.

Fourthly, the impact of stepped up investment efforts on price is, as a rule, not as significant as that of, say, encouraged consumer demand. The scenario therefore provided for measures to anchor inflation.

Fifthly, the investment growth scenario prioritized foreign investments as the main source of capital investment financing, which by definition was supposed to foster stability on the domestic foreign exchange market.

This scenario, however, was impeded by not only a reduction in the growth potential, but also the relatively unfavorable market situation.

Firstly, the external demand for most Belarusian traditional exports restored only partially, and the process took some time.

Secondly, a new oil shock came at the start of the year, when Russia adjusted its terms of oil trade with Belarus. This automatically affected the country's trade balance (according to our estimates, in terms of the 2009 export mechanism, net export revenue loss¹ amounted to around USD 1.8 billion, or 3.1% of GDP in 2010). Furthermore, the oil shock caused a drop in budget revenues, which shrank by an estimated USD 2 billion in annualized terms, according to the Ministry of Finance's reports.

Thirdly, another prerequisite of the investment growth scenario proved inconsistent later, namely, additional inflows of foreign investments, mainly FDI. The authorities had planned to attract foreign capital investments at least 23–25% in excess of the 2009 level. That major increase called for about USD 4 billion in financing of capital investments from external sources.

The government believed China could become a major investment contributor, enabling this country to meet the ambitious investment targets. Framework agreements with potential Chinese investors and banks make it possible for Belarus to take out up to USD 15 billion in Chinese resources to finance investment projects in various sectors of the national economy. Nevertheless, only a tiny part of those resources was provided. Therefore, the mission to ensure a fast significant growth in gross domestic product was complicated by not only the slow recovery of demand in partner countries, but also a number of additional adverse shocks.

In the first half of the year, a crucial tendency towards a "redistribution" of roles in the structure of domestic demand emerged amid persisting difficulties with the implementation of the investment growth scenario. During that period, a number of factors, such as the adaptation to the crisis, decline in negative expectations about the external environment and acceleration in personal income growth resulted in a faster increase in households' consumption. Throughout most of the year (the trend gradually subsided towards the end of the year) the propensity to consume appeared to grow, that is, households were increasing the share of consumption in their incomes, and consumption growth outstripped the expansion of incomes.

¹ We compare the actual results of import and export of crude and refined oil in 2010 with the scenario envisaging unchanged crude oil import terms compared with 2009, and, consequently, identical import and export volumes (at the 2009 level, that is, 21.5 million metric tons of imported crude and 15.5 million metric tons of exported refined oil).

Various schemes can be employed to explain the said trend. On the one hand, we can mention consumer optimism and positive expectations², which promoted consumer enthusiasm. On the other hand, the propensity to consume may be partially attributable to negative expectations, for instance, of a rise in prices and curtailment of spending power in the future, which naturally encourages immediate consumption.

We believe both groups of factors account for the increase in propensity to consume. As a result, household consumption became the key factor of GDP growth based on demand from the very start of the year. By October 1, 2010, household consumption had accounted for 5.1 percentage points out of the 6.6% GDP growth in year-on-year terms. In the last three months, propensity to consume stabilized and even decreased a bit amid a substantial growth in household incomes resulting from the directed wage push. In January-December, household consumption remained the key demand-based GDP growth factor.

Another essential element of domestic demand — capital investments — was showing reverse dynamics: they tended to shrink at the start of the year making a negative contribution to GDP growth, however, the second quarter saw the growth in capital investments resume (it picked up pace towards the end of the year). In early 2010, the economic authorities, pinning high hopes on foreign investment inflows, somewhat alleviated the credit boom in the national economy by way of reducing the intensity of directed lending and pursuing a relatively rigid monetary policy. Since bank loans have dominated among all sources of capital investment financing, that policy resulted in limited implementation of some investment projects by non-financial businesses.

The authorities had to resume and broaden the practice of directed lending later in an attempt to promote GDP growth amid shortages of foreign resources to finance investment projects. In order to keep the banks servicing state programs from liquidity shortages and encourage lending by privately-owned banks, the National Bank in the second half of the year mitigated its monetary policies and allowed active refinancing of commercial banks. As a result, gross capital formation became the fastest-growing element of domestic demand in the final months of the year.

² The same process may be characterized as consumer behavior getting back to "normal", which is attributed to the exhaustion of negative expectations of the recession period.

On the back of the state's support for domestic demand came a considerable increase in import demand. Whereas in the first quarter net export contribution to GDP growth was positive, that is, the trade deficit was smaller than in the first three months of 2009, in the final three quarters, the deficit grew. In 2010, the reliance of the Belarusian economy on imports revealed itself stronger than before, as a substantial part of artificially-backed demand was for imported commodities rather than domestically-made products.

This dependence was manifested both directly and indirectly. In the former case, economic agents showed demand for final products and gave preference to imported commodities. The latter mechanism presupposes a demand for domestically-made goods, which on the one hand promotes the real sector's output, but on the other hand ultimately leads to an increase in imports, since many of the Belarusian-made commodities rely on supplies of foreign raw materials and components. As a result, net exports' negative contribution to GDP dynamics appeared to be commensurable to the positive contribution of household consumption or gross capital formation.

The economic model of artificial promotion of GDP growth by way of encouraging domestic demand therefore proved inefficient even in the short term, because much of the demand created by the authorities was for imported commodities rather than domestic production. Furthermore, that approach aggravated the problems with financing of the economy's balance of payment deficit.

Real sector

Of all the sectors of the national economy, the manufacturing sector, construction, transport, communication, retail and public catering contributed most to GDP growth in 2010.

Similar to the previous year, the production sector, by far the largest economic sector, expanded faster than the average for the national economy. The fastest-developing industries were mechanical engineering and metalworking, with a 16.7% growth year-on-year, the ferrous metals industry with 16%, forestry, woodworking and pulp-and-paper industry with 14.9%, chemical and petrochemical industry with 13.3%, and electricity industry with 12.9%. The two largest industrial sectors are mechanical engineering and metalworking and the chemical and petrochemical segment. Those two became the key sources of growth, fueling the entire manufacturing sector.

The impressive growth of mechanical engineering was a result of the "recovery" growth in the automotive sector. In other words, following a major drop in partners' demand and stagnation of 2009, the modest recovery of partner countries and the poor performance in the previous period caused a vigorous growth in year-on-year terms. The considerable expansion of the automotive sector was recorded amid the unsettled problem of excessive inventories: as of early 2011, stocks of finished products of Belarusian automotive companies stood at BYR 643.3 billion, or 154.4% of the average monthly output.

Another important contributor to the overall industrial growth was the food-processing industry, despite the modest expansion of 9.5% on the year. The meat industry was the leader in terms of growth with 13.1%, mostly owing to its competitive edge on foreign markets. Another critical subsector — the butter-and-cheese and dairy industry — showed only a 3.6% expansion year-on-year, despite the strong growth in both export volumes and prices.

The fuel industry suffered more than any other Belarusian industry in 2010 because of the adjusted Russian crude oil import terms and consequent reduction in crude imports. At the start of the year, the economic authorities claimed the deficit of Russian crude would be offset by new deliveries from Venezuela, however, the country imported only 12.9 million metric tons of crude oil from Russia and 1.8 million metric tons of crude from Venezuela in 2010, 14.7 million metric tons in total, which compares with 21.5 million metric tons of crude oil imported in 2009. As a result, the oil refineries were not using their entire capacity, hence a 21.5% fall in output by the oil-processing industry and 16.1% drop in production by the entire fuel industry.

Amid the moderate growth in most of the larger industries (at least compared with the original annual targets) and slump in the fuel industry, the overall performance of the industrial sector owed its good results to smaller industries traditionally categorized as "other industries"³. It was that group of smaller industries that contributed the most to the Belarusian industrial growth in 2010.

Companies' finance

A key problem for the financial position of the real sector in 2010 was the increase in labor unit costs, promoted by the policy to support real incomes at the previous level, despite the slump or low growth

³ "Other sectors" also include changes in the structure of relative prices.

rates in most economic sectors. The increase in labor unit costs de facto means that compensations paid to workers increased faster than labor productivity. In the first half of 2010, the economic authorities were busy looking for ways to promote economic growth and relaxed their efforts to ensure a wage push (at least compared to the planned rise in incomes), therefore the urgency of that problem decreased. In the first six months, labor unit costs even showed a decrease year-on-year, although they remained above the pre-crisis level.

In the second half of 2010, the government intensified the wage-promotion policy, which resulted in an increase in labor unit costs and affected the competitiveness of domestic producers. Furthermore, the finances of Belarusian companies were under pressure of the increase in costs resulting from higher tariffs on electricity and other energy types, a natural result of the rise in prices of Russian natural gas. Companies therefore had economic preconditions to raise prices; however, the economic authorities resorted to measures, including administrative levers, to restrain price increases. Under the circumstances, arrangements to promote demand and the consequent increase in costs amid efforts to keep a moderate rise in prices and encourage a growth in output resulted in profit restraints. On the other hand, the marked reduction in inventories in almost every industry had a favorable impact on profitability dynamics.

Therefore, despite the simultaneous sharp increase in domestic demand and growth in the real sector's production, both sales margin (10.1% in 2010 and 9.9% in 2009) and profit margin (6.3% and 6.1%, respectively) indicators remained almost at the level of the crisis year, that is, way below the pre-crisis figures. Furthermore, throughout the year, there was no evident tendency towards a year-on-year increase in profitability rates. This behavior of key indicators characterizing economic efficiency accounts for the largely artificial nature of the GDP growth in 2010.

Households

Individual incomes and expenditures

The first grade wage rate, the benchmark for calculating compensations at enterprises, was raised twice in the first half of 2010; however, the total increase amounted to 16.8%, which was not much, considering that wages had been last increased in the second half of 2008. Therefore, wages increased at a moderate rate of 8.1% year-on-year

in January-June 2010 (which was not enough to meet the ambitious income growth target set for the entire year). In real terms, individual incomes, which include wages, social transfers, property and business incomes, etc., grew almost at the same rate in January-June, 2010, at 8% year-on-year.

In the second half of the year, the government pursued a more aggressive income policy in a bid to reach the annual target. In September, a special ruling introduced adjusting indices to increase compensations for lower-income households.

Two months later, in November 2010, there came a 31.1% hike in the first grade wage rate, which brought the overall annual rise in incomes up to 53.2%. Real personal incomes rose 15.2% in 2010 from the 2009 level, and real disposable incomes (incomes minus taxes) went up 14.9%.

As we mentioned before, the rise in incomes and corresponding expectations resulted in an increase of households' propensity to consume. The hike in consumers' activity was most obvious in the non-foods sector: trade in foods showed a continuous decrease in volumes in 2010 (as incomes grew), whereas retail turnover of non-foods in the same period was increasing. The same trend was revealed as a result of sample survey of households: acquisition of non-foods became the key expenditure, and the share of non-foods in the total spending kept growing.

Therefore, a considerable proportion of the "new demand" that owed its appearance to the government's demand promotion policy, was shifted to the non-food market, where pressures on price levels increased correspondingly. Another important consequence of the rise in incomes was the increase in companies' propensity to import: the share of imported products went up markedly in almost all groups of non-food consumer goods. The aggressive income policy thus led to a substantial additional demand for consumer imports.

At the end of the year, the expectations of higher incomes came true, and households' propensity to consume started to decrease. In the twelve months of 2010, the share of consumption of commodities and services in total incomes was almost the same as in the previous year. However, the trend was not accompanied by an increase in savings share (the share of expenditures on taxes and duties went up instead), which would have been a welcome development for the country. On the contrary, the share of savings in incomes was going down throughout the year, to reach 4.5% of incomes, which compares to 5.7% in 2009.

Also noteworthy is the gap between spending and incomes: expenditures were 4.2% above the level of incomes, which was mostly due to the rise in bank credit (by 6.5% of the income level). As a result, the tendency towards a decrease in propensity to save observed throughout the year grew stronger at the end of the year because of the increase in the overall debt under loan agreements, and the population turned into a net borrower of resources from banks, whereas previously households' contributions to the banking system used to be in excess of borrowing. The problem of insufficient savings, which are traditionally required to finance investments, therefore aggravated in the national economy, enhancing current imbalances and blighting long-term development prospects.

Commodity and service markets. Prices

Consumer inflation totaled 9.9% in 2010 (as of December), which compares to 10.1% in 2009, and the average annual consumer price increase was at 7.8%, down from 13% in 2009. On the one hand, this indicates a trend towards a slower increase in consumer prices compared to the previous year's dynamics; however, this may be attributed to the high comparative base, especially in the case with the average annual indicator. Furthermore, in early 2010, the "crisis impulse" of the previous year was still felt, when amid slowly growing or decreasing demand prices behaved correspondingly in most markets. On the other hand, if we consider price dynamics in 2010 alone, it is evident that the price rise accelerated in the course of the year. This was a result of a gradual enhancement of measures to shore up the economy, with the use of monetary, fiscal and other instruments, including administrative levers.

Since household consumption was the main growth component of demand during most of the year, the inflation overhang in consumer markets emerged quite fast. However, the economic authorities used countermeasures to restrain price increases; for example, the exchange rate was de facto kept within a narrower band than originally planned in the *Basic monetary guidelines* for the year. In this connection, producers had to contain the increase in prices despite the substantial increase in demand in order to be able to compete with imports, especially of non-foods, thus restraining profitability in the real sector.

The government allowed only minor increases in regulated prices in 2010. For instance, utility fees, which make up an important part of the consumer price index (CPI), mostly remained unchanged in 2010 (only heating rates rose 7.8%; utility fees rose only 1.7%).

Therefore, despite the upward pressure that the growing demand produced on the entire range of prices, the economic authorities managed to rein in those trends on non-food markets, as well as in the segment of chargeable services to the population, with price increases at 7.4% and 6% year-on-year, respectively. To curb the rise in prices on the food market appeared to be much more difficult because of the low crop yields both in Belarus and in the wider region. Under the circumstances, domestic supply restraint, rise in prices of imported products, as well as the likelihood of the failure to meet the domestic requirement (should the price gap with neighboring countries widen too much because of the growth in food export) accounted for the inevitable increase in prices of most foods. It was the food prices that contributed the most in the CPI structure (food prices increased 13.1%).

Producer prices showed a more significant increase in 2010 compared to consumer prices, rising 19.3%. Prices of intermediate materials went up most of the other components of the producer price index (PPI), by 25.5%, which is attributable to higher energy fees. Therefore, branch-wise, the fuel, chemical, petrochemical industries and the electricity sector accounted for most of the price hike. Inflation calculated based on the index of producer prices for consumer goods amounted to 13.5%. The gap between this figure and CPI-based inflation is another indication of the inflation overhang in the economy, which in 2010 was contained chiefly by profitability restraints and additional burden on the consolidated budget.

The inflationary pressure became even more evident in the final months of the year, and additional efforts were required to deal with it. The faster increase in consumer prices, except for December, did not fulfill the inflationary potential, and most of the pressure was passed on to the first few months of 2011, given the unprecedented arrangements to promote domestic demand in the final month of 2010.

External sector

Foreign trade

The current account deficit has been one of the most sensitive issues for the Belarusian economy for years. The year 2009 saw truly alarming trends, though, when amid the global crisis and foreign demand drops, the Belarusian commodity trade deficit widened to 14.8% of GDP, whereas in other transition economies it shrank. The adopted

scenario of promoting domestic demand left no room for measures to address the trade deficit problems in the post-crisis year. However, early in 2010, the foreign dynamics proved positive, inspiring optimism and expectations of favorable changes and alleviation of the foreign trade predicament: the foreign trade deficit went down both in nominal and real terms. As a result, in the first quarter of 2010, net exports made a positive contribution to GDP, chiefly because of the reduction in Russian oil import at the start of the year, while export of refined oil showed a less significant decrease owing to the crude reserves accumulated in 2009.

At the same time, favorable trends were recorded in trade in other commodity groups (besides energy). However, the positive trends slackened during the second and third quarters, when the foreign trade deficit resumed its steady growth. While in the first six months, the foreign trade deficit remained below the level reported in January-June 2009, the first three quarters saw a 19% expansion in the deficit year-on-year, whereas the fourth quarter witnessed an unprecedented growth of 63.2% on the fourth quarter of 2009 due to hikes in domestic demand. In January-December, foreign trade deficit widened 32.7% on the year, reaching 17.6% of GDP.

Since the commodity portfolio is grouped into broad economic categories, we are able to indicate each commodity group's contribution to the growing trade deficit: trade in energy products accounted for 23% of the deficit growth, which is a result of the hikes in import and export prices amid drops in trade volumes; and trade in "other intermediate goods" accounted for 21.4% of the increase. From the perspective of commodity structure, import of intermediate products was increasing mostly due to the overall growth in volumes, as well as rise in ferrous metal prices. In the scope of the entire broad commodity group, trade performance deteriorated largely because of the increment in the volume of imports, and to a lesser degree due to the rise in average import prices (imports rose 26.5% in volume terms, whereas average import prices went up 9.7%). The burden of Belarus' trade in intermediate products, commensurable to the impact of energy trade in the overall deficit, indicates that import consumption of production is very high in the Belarusian economy. This level of import intensity results not only from the need to acquire foreign energy for the production sector, but also from additional import of other raw materials and components.

The expansion in Belarus' foreign trade deficit was also promoted by trade in non-food consumer goods, which accounted for 5.3 points

of the commodity trade deficit growth. This trend is conditioned by the growing households' propensity to consume imported products and is mostly associated with the growth in the physical volume of imports, by 24.9% year-on-year in this commodity group alone.

Trade in foods and investment commodities resulted in improvements in trade figures (that is, made a negative contribution to the deficit expansion) — by 9.9% and 2.3%, respectively. It should be noted that the increase in investment commodity exports (which mostly use imported intermediate products) contributed much less to foreign trade than imported intermediate materials. In other words, the policy to encourage domestic demand also promoted domestic production, which increases import of intermediate products to meet the new demand. At the same time, the growth in domestic output does not lead to increases in exports that would suffice to offset import hikes. As a result, the policy to promote domestic demand and production became a crucial factor in the overall growth of the foreign trade deficit in 2010.

Other foreign flows and balance of payments

In 2010, Belarus' current account deficit amounted to USD 8.5 billion, or 15.6% of GDP. BoP commodity trade deficit reached USD 9.1 billion, 16.6% of GDP, service trade surplus was at USD 1.7 billion, 3.1% of GDP, income balance was in deficit of USD 1.3 billion, 2.4% of GDP, and current transfers came to a surplus of USD 0.3 billion, 0.5% of GDP.

The negative trends in the external sector were manifested not only in commodity trade, but also in service trade. The service trade surplus as a proportion of GDP went down 0.5 of a point year-on-year in 2010; furthermore, it offset only 18.7% of the commodity trade deficit, whereas in 2009, it was enough to make up for 20%.

The key reason behind the deterioration of relative results of external service trade was the outrunning increase in transport and construction services imports. Despite the poorer "transport services" trade balance, compared to the previous year, it was the transport sector that provided the bulk of the surplus, with around 97% of the entire service trade surplus (the remaining segments performed close to zero).

Income deficit kept widening in 2010, primarily due to the increase in net capital outflows in the "investment incomes" category: in 2010, net capital outflows rose 21.2% year-on-year, commensurable with net

FDI inflows in previous years. This attests to the low efficiency of a substantial part of incoming FDI, because at a later phase such investments form a reverse flow of investment incomes. It is getting increasingly important for the economic authorities to offset this effect, which means additional efforts must be taken to facilitate FDI inflows in the projects targeting primarily foreign rather than the domestic markets. Furthermore, it is essential that additional incentives be offered to investors, in order to ensure reinvestment of incomes from FDI and prevent their almost entire outflows as investment incomes.

In 2010, nearly all possible sources were used to finance the record high current account deficit. Most of the financing came from net inflows of loans and credit, at USD 3.5 billion, FDI, at USD 1.3 billion, portfolio investments, at USD 1.2 billion, and commercial loans, at USD 1.1 billion.

Commercial banks were the main borrowers on foreign markets, with net inflows of foreign resources at USD 2.2 billion. Foreign funds were mostly attracted by commercial banks with foreign capital, primarily those with Russian shareholdings, which borrowed from parent structures. Those loans were clearly not enough to finance the current account deficit. Also, most of the funds raised by domestic banks were short-term loans, which could not guarantee stable inflows of finance. Therefore, not only banks, but also the central government and the National Bank borrowed from external sources.

Early in 2010, Belarus received the final tranche of the IMF loan; however, it was time to start repaying previous loans in the second half of the year, and net inflows of foreign resources thus came to a mere USD 500 million. In July-December, as the foreign trade situation deteriorated, the NBB had to step in; the central bank managed to draw USD 700 million on a net basis. The country owed the substantial inflow of "portfolio investments" to the debut placement of sovereign Eurobonds on foreign capital markets.

Nevertheless, despite the employment of new external borrowing instruments, capital inflows were not enough to cover the current account deficit. The shortage was financed from reserve assets, which fell by USD 800 million in 2010.

Currency market

The changing dynamics of foreign trade performance and expectations of the population had a prompt impact on foreign exchange trade patterns domestically. In the first quarter of the year, foreign trade

performance improved because of a reduction in sales of crude oil and oil products. However, in the segment of resident companies the trend resulted in hikes in net demand for foreign exchange, by 57.8% year-on-year, with net demand reaching USD 1.5 billion). This was mostly due to the limited increase in the supply of foreign exchange caused by shorter export of refined oil.

At the same time, demand was growing steadily in this segment, despite the moderate growth in imports, as the share of foreign exchange acquired to service earlier loans markedly increased in the structure of purchases. In other words, active borrowing from external sources by privately-owned businesses with a view to financing the current account deficit led to additional demand for foreign exchange from corporate entities.

The first quarter of the year saw major improvements in the balance of cash exchange trade between commercial banks and households compared with the first three months of 2009: net supply of cash exchange reached USD 174 million, whereas in the same period of 2009, net demand for exchange stood at USD 605 million. The deficit that was not offset by trade with individuals was covered by additional currency sales by banks and NBB's interventions. A similar situation was observed in the second quarter, when resident companies remained the main foreign exchange beneficiaries (although their net demand was growing at a much slower pace than in the first quarter). The key donors in that period were commercial banks, which were taking out new loans from external sources, and the National Bank, which continued its efforts to keep the exchange rate stable.

In the third quarter, corporate demand for foreign exchange grew even faster, 57.6% on the third quarter of 2009, or USD 1.2 billion, mostly due to heating of demand and additional demand for imports. Furthermore, foreign exchange trade with households swung to a deficit of USD 56.3 million (from a surplus, or net supply, of USD 131 million). The burden on banks and gold and foreign exchange reserves of the country therefore markedly increased, and banks started performing "double" functions in financing the deficit: they had to form a net supply of foreign exchange on the domestic market while placing currency deposits with the National Bank in order for the latter to be able to stabilize the amount of net foreign assets.

The aggressive economic expansion in the fourth quarter brought about a record high deficit of foreign exchange trade on the domestic market. *Firstly*, net demand of resident companies more than trebled year-on-year to reach USD 2.8 billion. *Secondly*, the increase in

incomes and less optimistic expectations of individuals stood behind an unusually high net demand in that segment, reaching USD 1.2 billion.

The considerable net supply of foreign exchange by non-residents, at USD 0.6 billion, was also a statistically important source to finance the deficit. The statistical result was due to the currency swap deal between the National Bank of Belarus and the People's Bank of China; that money was not part of currency supply on the market, but was included in the gold and foreign exchange reserves.

Financing of the record high deficit was mostly by intensifying the scheme tested in the previous quarter: currency supply was formed by commercial banks and NBB, which used depleting foreign exchange reserves. Furthermore, to stabilize reserves of the central bank, commercial banks placed new deposits with the NBB in addition to forming net supply of exchange.

The disproportions on the money market therefore became the first noticeable result of the large-scale economic expansion undertaken by the authorities in 2010.

Finance

State finance

The main innovations of the state budget-2010 were the abolition of transfers to the agriculture promotion fund, local tax on sales, tax on sales of vehicles and parking fees. To offset the losses, the value-added tax was raised to 20% from 18%. Importantly, the Social Security Fund was withdrawn from the consolidated budget.

The new terms of oil trade became a serious shock for the state budget in 2010, as it had been drafted based on the 2009 trade terms. The Ministry of Finance estimated budget losses close to USD 2 billion, which called for additional revenues from other activities or spending cuts; otherwise, the country would have had to put up with a higher budget deficit. All of those options were used, with the dominance of the increased budget deficit (compared with the originally planned figure). In autumn, the Ministry of Finance had to admit that a broader deficit was required, setting the forecast between 2% and 3% of GDP (the deficit had originally been planned at 1.5% of GDP).

Consolidated budget deficit amounted to 2.6% of GDP in 2010, compared to 0.7% of GDP in 2009. Budget revenues were at 29.9% of GDP, down from 34.2% in the previous year, because of drops both in

tax-based revenues, to 27.5% of GDP in 2010 from 30.2% in 2009, and non-tax revenues, to 2.3% of GDP from 3.9%. The reduction in tax revenues was caused by the cancellation of the export duty on oil products, which stood behind the fall in tax revenues from foreign trade to 3.5% of GDP from 5.8%. The remaining slight reduction in tax revenues was due to the simplification of the tax system.

In 2010, consolidated budget expenditures amounted to 32.5% of GDP, down from 36% of GDP in 2009. The decrease was attributed to the reduction in national economy expenditures, to 7.6% of GDP from 12%, caused by the abolition of subsidies for oil importers. Furthermore, these expenditures fell in December 2010 in year-on-year terms because of the curtailment of bank recapitalization volumes, traditional for the final months of the year since 2008. In December 2010, around BYR 2 trillion was allocated from the budget to support banks (1.2% of GDP), which compares to BYR 4 trillion, or 2.9% of GDP, in December 2009.

The substantial consolidated budget deficit is a new situation for Belarus, as the country used to have either a surplus or a balance close to a zero in the previous five years. The budget deficit may be interpreted as the government's losing the room for maneuver in the fiscal sector and narrowing of possibilities to manipulate fiscal instruments to resist shocks.

BELARUS' FOREIGN EXCHANGE MARKET AND BANKING SYSTEM

Alexandr Mukha

Summary

In 2010, the Belarusian economy faced very serious economic shocks caused primarily by the introduction of export duties on Russian crude oil and a general increase in prices of imported energy products. As a result, the country's foreign trade deficit reached a new all-time high, which aggravated the situation on the domestic foreign exchange market. Amid the presidential election campaign, households' demand for foreign currency grew stronger, whereas the banking system saw dollarization of deposits resume. The widening gap between the supply of foreign exchange and demand for it caused a drastic reduction in the country's gold and foreign exchange reserves, even though Belarus received the final tranche of the loan from the International Monetary Fund (IMF), the last installment from Gazprom for a shareholding in Beltransgaz and proceeds from the placement of the debut Eurobond issue.

Belarus believes the situation on foreign markets will become more favorable for domestic companies in 2011, and the government expects an increase in FDI inflows (including through sale of state property), which the authorities hope will suffice to finance the current account deficit and ensure financial stability.

Tendencies:

- Introduction of export duties on Russian crude oil supplies and increase in energy product prices aggravated the situation in foreign trade and caused hikes in demand for foreign exchange;
- Presidential election campaign triggered a stronger demand for foreign currency from individuals and encouraged households to convert ruble-denominated deposits into foreign exchange;
- In 2011, Belarus expects a more favorable situation in foreign trade, reductions in net demand for foreign currency and resumption of de-dollarization processes.

Oil and gas shock

Last year, Belarus faced serious economic shocks caused mainly by the introduction of export duties on Russian oil deliveries and a rise in prices of energy resources, including natural gas. This aggravated negative trends in the foreign trade sector: the country's foreign trade deficit climbed to a new record high of USD 7.426 billion in 2010 from

USD 5.518 billion in the year 2009, when the global economy was hit by the recession. In other words, in 2010 alone, the deficit broadened by USD 1.908 billion. The deficit of trade in intermediate materials (including energy products, raw materials, components and materials) increased by USD 3.196 billion in 2010, or 54.8% year-on-year, to reach USD 9.024 billion. This means the entire increase in the country's foreign trade deficit was due to the expanding deficit of trade in intermediate materials.

The deterioration of the situation in foreign trade brought about an increase in net demand for foreign exchange on the domestic market. According to the National Bank of Belarus, in 2010, net demand for foreign exchange (demand minus supply) from corporate entities increased by USD 3.246 billion, or 90%, to a new record high of USD 6.874 billion. In December alone, companies' net demand for foreign exchange reached a new high of USD 1.451 billion, which compares with USD 876.8 million in November 2010, USD 521.1 million in October 2010, and USD 297.1 million in December 2009.

According to the central bank statistics, Belarusian companies' foreign exchange proceeds totaled USD 29.343 billion in 2010, up 16.2% year-on-year. The Russian ruble accounted for 36.6% of the total, up from 25.5% in 2009, the share of the U.S. dollar fell to 31.4% from 38.3%, and the share of the euro decreased to 30.4% from 34.7%. The Belarusian ruble accounted for 0.7% of all proceeds in 2010, down 0.1 of a percentage point, whereas the share of other currencies increased 0.1 of a point to 0.8%.

At the same time, in 2010 payments for import of commodities and services increased 16.4% to USD 34.583 billion. As a result, the balance of foreign exchange proceeds and payments for imports reached a deficit of USD 5.24 billion, compared with USD 4.468 billion in 2009 and USD 2.799 billion in 2008.

In 2010, the overall foreign trade deficit of the country, at USD 7.426 billion, did not coincide with net payments for imports (payments minus proceeds), standing at USD 5.24 billion. The difference may be attributed to the increase in net current liabilities of Belarusian companies under foreign loan agreements amounting to USD 2.141 billion (the surplus of foreign trade transactions that do not envisage monetary payments amounted to mere USD 44.6 million). In other words, a substantial part of imported commodities and services supplied to Belarus in 2010 will have to be paid for in 2011, which will add to negative pressure on the domestic money market. As of October 1, 2010, companies' debts under trade loans stood at USD 6.74 billion.

It is noteworthy that in 2010, of companies' overall net demand for foreign exchange, at USD 6.874 billion, payments for imports accounted for around USD 5.24 billion. The remaining USD 1.634 billion was connected with net outflows of foreign capital from the corporate sector, which is quite alarming. Repayment of foreign loans by Belarusian companies, both of principal debt and interest, exceeded new borrowing in foreign exchange, including on foreign markets.

In the four quarters ending on October 1, 2011, Belarusian companies will have to repay (or refinance) at least USD 7.925 billion worth of short-term foreign credits and loans — and this sum includes only principal debt, which means companies will additionally be paying non-residents interest, dividends and other fees, which brings total corporate debt to USD 8.9 — 9.3 billion.

The deficit of currency to pay for foreign loans and imported raw materials, components and equipment is traditionally covered by the state (companies file applications for currency acquisition with the Belarusian Currency and Stock Exchange), which is the main reason why the state banned down payments for imports from foreign exchange loans of Belarusian commercial banks and raised the exchange charge for currency application to 2% from 0.0095% of the amount of transaction.

These decisions will enable the government to limit import of commodities and services and reduce net demand for foreign currency at the exchange. In January 2011, the demand for U.S. dollars, at USD 682.631 million, exceeded supply, at USD 520 million, by USD 162.548 million. The demand for euros was EUR 74.052 million above the supply, at EUR 282.311 million and EUR 208.259 million, respectively. In contrast, the supply of Russian rubles was RUR 463.085 million in excess of demand, at RUR 6.255 billion and RUR 5.892 billion, respectively. In the first month of the year, net demand for foreign exchange fell to USD 405.1 million, including trading at the OTC market. However, this result was largely due to the absence of supplies of Russian oil January 1 to January 24.

According to experts' estimates, Belarus' recent agreement with Russia on import of crude oil and export of oil products will result in around USD 1.3 billion net benefit for this country in 2011 alone. Belarusian companies also expect a more favorable foreign trade environment this year, with substantial increases in prices of their commodities and services, which will enable the country to bring down the foreign trade deficit.

Election fever

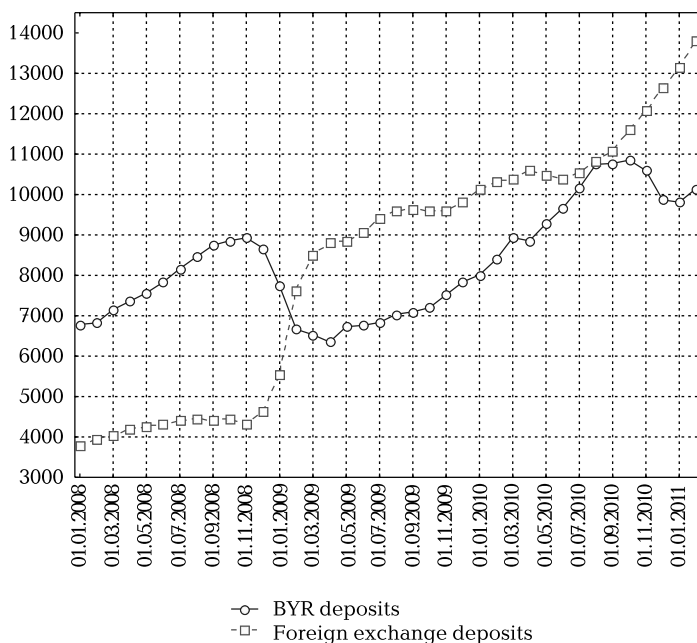
The second essential factor that shaped the situation on the domestic money market in 2010 was the sharp increase in the population's demand for foreign exchange, caused by growing inflationary and devaluation expectations of households amid the presidential election campaign. According to the central bank, net demand for foreign exchange from individuals (including cashless transactions) exceeded USD 1.5 billion in 2010, and in the fourth quarter alone, purchases of foreign exchange from banks exceeded sales by USD 1.537 billion. In other words, the situation on the market of cash foreign exchange and in the banking sector remained stable in the first three quarters of 2010, however, in October-December, during the election campaign, households reduced their deposits with banks by BYR 1.041 trillion, or 9.6%, to BYR 9.811 trillion as of January 1, 2011. At the same time, foreign exchange-denominated deposits rose by USD 520.6 million, or 13.5%, to reach USD 4.382 billion. Interestingly, since the one-off devaluation of January 2, 2009, ruble-denominated personal deposits never exceeded currency deposits, see Figure 1. The share of ruble deposits fell to 42.7% of the total deposits on January 1, 2011 from 44.1% on January 1, 2010, 58.3% on January 1, 2009 and 64.2% on January 1, 2008.

In absolute terms, personal deposits in Belarusian rubles and foreign exchange amounted to BYR 4.804 trillion. The monetary guidelines for 2010 had a more optimistic forecast for the increase in personal deposits – between BYR 5.6 trillion and BYR 7.2 trillion. Banks had clearly expected more from the population in 2010; however, retail deposits were short of the target amid the election race.

Nevertheless, now that the election campaign is over and net demand for foreign exchange from individuals has narrowed, de-dollarization processes have resumed. In January 2011, net demand for foreign currency shrank to USD 56.9 million from USD 649 million in December 2010. In February 2011, households sold more exchange than they bought for the first time since May 2010: during the first two weeks of February, net sales of currency by the population amounted to USD 10 million. Ruble deposits also showed an impressive increase in early 2011: in January alone, they rose by BYR 332.4 billion, or 3.4%, to BYR 10.143 trillion as of February 1, 2011. Personal deposits in foreign exchange increased by USD 206.7 million in January, or 4.7%, to a new all-time high of USD 4.589 billion. By February 1, 2011, overall bank deposits of households had reached the equivalent of BYR 23.96 trillion.

Including savings certificates and bonds issued by banks, households' funds in the banking system reached BYR 25.043 trillion, another all-time high. The banking system now keeps an estimated BYR 2.641 million worth of savings per capita, an equivalent of USD 877.

Figure 1. Deposits in Belarusian rubles and foreign exchange in January 2008 – January 2011, equivalent of billions of Belarusian rubles



The first months of 2011 saw a positive tendency toward a decrease in inflationary and devaluation expectations in the economy. The government also decided to "tie" a part of the increased personal incomes by increasing utility fees on February 1, 2011 with a view to compensating for additional energy costs. Wages are expected to stagnate in real terms, that is adjusted for consumer price inflation, in 2011, which will help balance the economy. Belarusian banks are likely to keep offering positive interest rates on ruble-denominated deposits (above the inflation rate). In other words, the level of yield on deposits denominated in the national currency will be kept quite high (interest rates now stand at 18%-19%).

The *Basic monetary guidelines for 2011* forecast an increase in retail deposits by BYR 6.4 trillion to BYR 7.2 trillion, but we have doubts that the target will be reached, because individuals are likely to try new savings instruments, such as precious metals, diamonds, corporate bonds and shares.

By the way, banks had sold 7.64 tonnes of gold in bullion to households and companies by February 2011, and bought back only 1.391 tonnes, which means individuals and corporate entities (except banks) had 6.249 tonnes of gold, worth about USD 280 – 305 million as of February 1, 2011.

Interestingly, in January 2011 alone, individuals and companies increased 999.9 gold purchases 190% year-on-year to 118.08 kilograms. Sales of silver bullions rose 320% to 329.32 kilograms. Since central banks keep buying gold now, which they consider to be the best way to form reserves, regular participants of the precious metals market should follow suit.

Reasons against devaluation

In the medium term, money market players expect the U.S. dollar to depreciate against most global currencies, mainly because of the growing public debt and budget deficit in the United States. In 2010, the U.S. saw its public debt expand by USD 1.714 trillion to a new record high of USD 14.075 trillion as of December 31, 2010. We believe the reduction in the U.S. dollar exchange rate on the international *FOREX* market will help keep the domestic money market of Belarus stable. In this case, the NBB will find it easier to ensure flexible and predictable dynamics of the Belarusian ruble vis-a-vis the U.S. dollar.

At the same time, the stronger euro and Russian ruble will contribute to the competitiveness of Belarusian products on the European and Russian markets. The Belarusian exporters whose costs are denominated in Belarusian rubles and proceeds are mostly in euros or Russian rubles will benefit most of all.

We do not expect significant fluctuations of the Belarusian ruble to major currencies in 2011. In this case, a sharp one-off devaluation may aggravate some economic and financial risks

Firstly, consumer prices will hike. However, inflationary pressures are already very strong because of the recent wage push, inflationary expectations of households, faster increase in producer prices and fast increase in lending volumes. According to our estimates, the inflation rate will reach 11 – 12% in 2011, allowing for all the factors mentioned above.

Secondly, a devaluation of the Belarusian ruble will result in additional devaluation expectations and stronger dollarization processes in the economy.

Thirdly, a sharp devaluation of the national currency will cause a substantial increase in the debt burden connected with servicing the overall foreign liabilities of the economy, as well as a drop in the solvency of the government and companies. This will affect the capacity of Belarusian residents to attract foreign financing (including for the purposes of refinancing previous foreign credits and loans). Belarus' overall foreign liabilities had reached USD 25.593 billion by October 1, 2010, 48.8% of GDP, still short of the safety limit, at 60% of GDP. However, a 20% one-off devaluation would increase the debt to GDP ratio to 58.5% because of the reduction in the U.S. dollar equivalent of GDP, which is very close to the ceiling that ensures economic security.

A smooth continuous devaluation of the Belarusian ruble against the key foreign currencies is therefore more likely in the short run (to the U.S. dollar, the ruble is likely to depreciate between 6 – 8% annually).

Conclusion

The Belarusian economy enters a phase of structural transformations and market reforms. One of the key economic trends of the year 2011 will be an increase in FDI inflows in the economy. The government expects net FDI inflows at USD 6.4 – 6.5 billion in 2011, including over USD 3 billion from sale of state property.

The projected increase in FDI will enable the government to finance the current account deficit and increase gold and foreign exchange reserves in 2011. This will serve as an additional guarantee of financial stability in Belarus, including the situation in the domestic money market.

In 2011, the NBB plans an increase in international reserves at least at USD 1.2 billion, which, alongside possible reductions in import of commodities and services, will improve the indicator of adequacy of gold and foreign exchange reserves.

We believe the expected recovery of the chief export markets and international capital markets will reduce the risk of depletion of gold and foreign exchange reserves, which will not threaten the economic and social development of the country any longer, however, the country needs to allow major transformations and develop new productions and projects.

LABOR MARKET AND SOCIAL POLICY: POST-CRISIS RECOVERY AMID PRESIDENTIAL ELECTION

Kiryl Hajduk

Summary

The pressure of the global recession on the Belarusian economy somewhat slackened in 2010. The demand for labor increased, underemployment went down, and wages hiked at the end of the year. Repeating previous years' trends, the increase in real personal incomes was followed by a reduction as early as January and February. There were no changes in the social security system – reforms were postponed for a year or two. At the same time, the government plans a drop in the number of jobs in the public sector and reductions in subsidies of utility costs.

Tendencies:

- Reduction in the share of labor force because of demographic reasons and general decline in population;
- Rise in wages that is not supported by a relevant increase in labor productivity, but based exclusively on targets set in state programs;
- Stable controllable level of registered unemployment with no structural reforms underway; difficulties with determining the real unemployment rate;
- The state gradually forsakes its social obligations and tends to pass the responsibility for growth in prosperity on to each citizen.

Demographic indicators and labor market situation

Belarus had 9.508 million inhabitants as of late 2010, down from 9.514 million people in late 2009¹. Natural population loss slowed to 0.1% in 2010 from 1.8% in 2009, but the number of deaths rose 1.6%, whereas the number of births went down 1%. The share of able-bodied citizens decreased to 62.7% from 64.8%, and the gap between economically active population (workforce) and the number of able-bodied citizens widened by around 7%, to 1.479 million people from 1.384 million people. The reduction in the share of able-bodied population is mostly

¹ Demographic data for 2009 published in early 2010 differ from the data that appeared in statistics digests in early 2011. We will use the most recent data unless specifically indicated otherwise; see http://belstat.gov.by/homep/ru/indicators/doclad/main2011_1.php.

due to demographic factors: those who were born during the post-WWII baby boom have now reached retirement age, while those born in the 1990s, during the demographic slump, reached active working age and child-bearing age.

To alleviate the impact of unfavorable demographic factors, Belarus in 2010 worked out the concept of the *Program for demographic security*, which provides demographic impetuses such as pegging of child care allowances to the average wage of one of the parents and measures to encourage women to give birth to a second and third child. Belarus also plans to introduce additional allowances for multiple-child families, or "maternal capital".

In 2010, inflows of migrants dropped 15.9% from the 2009 level, to 10,303 people from 12,949 people, and net inflows of migrants made up for 35.3% of natural population loss in 2010, down from 47.4% in 2009. Most of migrants in Belarus come from the CIS, especially from Russia, Ukraine and Kazakhstan, whereas most of migrants leaving this country choose to go to Russia, 73.4% of 6,866 persons last year. Inflows of labor force have been growing stronger in the past few years; however, they do not exceed 0.05% of the population.

In 2010, there were insignificant changes in the employment pattern, which fit perfectly in the general trend of the past decade (the share of workforce employed in the manufacturing sector decreased, whereas employment in the service sector went up). The number of the employed in the industrial sector went down to 25.6% of the total workforce in 2010 from 27.2% in 2009, in agribusiness fell significantly to 9.7% from 12%), whereas the proportion of Belarus' workforce employed in the construction sector rose to 9.3% from 7%, and in services and public catering to 14.8% from 12% (the number of jobholders in the housing and public utilities sector also increased).

The number of vacancies (officially registered in the job bank of the state employment service) rose to 544,000 from 450,000, most of them being blue-collar workers, who have seen a steadily growing demand for their work. Blue-collar job vacancies accounted for 77.6% of all vacancies in 2010, while in 2009, they made up 73.4%. The territorial imbalance of demand and supply remained unchanged: about a third of all vacancies were registered in the city of Minsk, and the number of vacancies in the capital city was 4.5 times above the number of registered jobless citizens.

Based on the findings of the 2009 population census, the situation is not as favorable as official statistics make it appear. Under the census, in 2009, 5.6% of able-bodied citizens residing in Minsk said

they were out of jobs, about 70,000 people altogether, whereas the officially registered unemployment rate stood at 0.3%. As for other regions, only in Minsk Region the number of the unemployed appeared to be below the number of vacancies, and in Brest Region, the numbers were equal; in the other four regions, the number of vacancies is lower than that of jobseekers. The authorities also admitted there was a problem of excessive employment in the public sector. In February 2011, Finance Minister Andrei Kharkovets² said it was necessary to reduce the number of jobholders in the public sector by 10 – 15% (which is the estimated excessive employment) with a view to cutting budget costs by BYR 2 trillion.

Large companies are also suffering from excessive employment. Some 4,500 workers were sacked at Minsk Automobile Plant from December 2009 through December 2010. First Deputy Prime Minister Vladimir Semashko admitted that some other large producers employed excessive workforce as well. On February 3, 2010, about 100 workers of Baranovichy automotive component works went on spontaneous strike seeking higher wages. In response, the administration of the plant said wages could only be raised if around 300 employees were fired³. Nevertheless, some sectors of economy are still faced with shortages of qualified personnel: the Ministry of Health said it was short of over 4,000 medics and almost 5,000 nurses, whereas around 3,000 medical workers resign every year. Mandatory job assignment upon graduation does not help, because once the obligatory employment term is over, about 30% of young medical workers resign. The most popular reason for giving up jobs is insufficient compensations. In 2010, wages in the healthcare sector averaged USD 330 a month, which compared to USD 440 on average in the economy. To earn more, medical workers tend to work extra time – last year, they worked an average 1.39 of the standard rate.

In 2010, the economy was slowly recovering from the crisis, which is evidenced by falling underemployment rate, including in the industrial sector. Back in 2009, 357,000 workers, or around 10% of the average monthly workforce, were forced to work part time, while a year later the figure dropped to 75,000 people, or 2.3% of the average monthly workforce. The number of workers forced to go on leave (with no pay or with partial pay) fell 22% from the 2009 level,

² *PRACA-BY.INFO*: http://praca-by.info/cont/art.php?sn_nid=3794.

³ *PRACA-BY.INFO*: http://praca-by.info/cont/art.php?&sn_nid=2902&sn_cat=1.

while the total period of leave almost halved. However, we need to take into account the active administrative measures to regulate partial employment. Many enterprises made use of "social" leaves that are initiated by employees themselves instead of regular (forced) leaves, which contributed hugely to the reduction in underemployment figures.

In March, presidential ordinance No. 164 offered employers a chance to have termless labor contracts with workers employed for over five years and having no disciplinary infractions. Employers used to have this right before, but most Belarusian workers are still employed based on fixed-term labor agreements (two-thirds of them are signed for over three years, though). The new norm is a "recommendation" and does not modify the nature of the contractual employment system.

Unemployment

The authorities had expected hikes in unemployment in 2009 and planned an increase in financing of employment promotion programs, including wage earning community services. However, in 2010, the situation proved different. The Ministry of Labor and Social Security tagged the situation with registered unemployment as "stable, manageable and controllable"⁴. According to *BelStat* statistical service, the number of the officially registered unemployed fell 18% to 33,100 people. Unemployment rate fell to 0.7% in 2010, a new record for the past decade (down from 0.9% in 2009). Some of the trends observed in the last few years persisted: the share of unemployed males kept growing (to 47.4% in 2010 from 42.9%), while the share of unemployed females decreased to 52.6% from 57.1%. Moreover, the number of vacancies in employment and social security centers kept growing in 2010 to reach 48,800 as of the end of the year.

Nevertheless, the real situation with unemployment is very hard to assess, because Belarus has never introduced the global practice of assessing unemployment based on interviews of workforce. Including those who stayed on forced leaves (potential and latent unemployed), we have 2.4% for the year 2010. Since the results of interviews in households will be available only in May 2011, we can only quote expert estimates here. Taking into account the dynamics registered

⁴ See: Ministry of Labor and Social Protection // <http://www.mintrud.gov.by/ru/activity/sostojanie>.

in previous years, we believe the real unemployment rate in Belarus stood at 4.6% – 4.8% in 2010.

Wages

At the end of 2010, the average monthly wage before taxes rose to a new record high of USD 530 in the U.S. dollar equivalent (around USD 470 in the public sector). The average monthly wage in 2010 reached BYR 1.238 million, or about USD 415, and in the public sector, BYR 983,700, or about USD 330. The year 2010 saw the highest increase in wages in the dollar equivalent in the past seven years. In real terms, the average wage rose 14.9% on the year, and in the public sector, the increase was by 18%.

That fast rise in wages should be attributed not only to the ongoing presidential campaign. The wage targets had originally been set in the *Belarusian socioeconomic development program for 2006–2010*, and in order to attain those targets, the first grade wage rate was raised thrice in 2010 (whereas in 2009 it remained unchanged): on January 1, it was increased 5.2% to BYR 81,000 from BYR 77,000, on June 1 it rose 11% to BYR 90,000, and on November 1, it further increased 31.1% to BYR 114,000. It was that November push that enabled the government to increase wages in the public sector 30% on average, or by BYR 135,000. Furthermore, on September 1, the government raised the payroll rate for low-wage earners and some categories of social and cultural workers.

Directors of organizations financed from the state budget are instructed to pay increments of 15 – 30% of wage rates to qualified specialists.

As for the minimum wage, it was raised twice in 2010, in November, to BYR 400,000 from BYR 258,000, and in December, to BYR 460,000. That was a step ahead from the practice set in 2005, which allowed increasing the minimum wage once a year. However, the gap between the minimum wage and the minimum subsistence level (BYR 274,510 per capita on average and BYR 293,880 per able-bodied citizen, or USD 98) remained.

The increase in wages for low-salaried workers stood behind a reduction in the sector-wise pay differentials, to 3.3 times in late 2010 from 3.6 times in 2009 and 6.7 times in 2000. The traditional leaders in terms of wages are the energy sector, oil-processing industry, pipeline transport and the banking sector. In those four sectors, the average wage had exceeded USD 700 by mid-2010. The chemical and

petrochemical industries, metallurgy, the construction sector and state authorities, courts and legal institutions are slightly behind the leaders with wages averaging USD 500 by mid-2010 and even USD 1,000 in some of them by the end of the year.

In 2010, an average wage of USD 500 could be earned by 16 categories of workers with their overall number totaling almost 770,000 people, or around 22.2% of the average number of employed workers. The least-paid sector was social services (where about a third of workers earned less than USD 300 a month). Despite the increase in wages, a *Wage Indicator* survey conducted in the fourth quarter of 2010 showed that 50.1% of the respondents were dissatisfied with their incomes, of them 23.9% were extremely dissatisfied), whereas only 19.1% were satisfied, and 3.7% were extremely satisfied. At the same time, official statistics often fails to take into account wages in the private sector. According to the Ministry of Taxes and Duties' estimates, in 2010, compensations paid in the shadow economy amounted to 10% of the country's official wage-bill, 29.8% of GDP, or about USD 137 million), which resulted in shortages of income tax transfers to the budget of BYR 150-200 billion⁵.

As for the private sector, the situation in the city of Minsk differed significantly from elsewhere in Belarus. According to *Zdes i seichas (Here and Now)*⁶ consulting agency's labor market survey covering the first half of 2010, wages rose 10% to 20% in U.S. dollar equivalents in the private sector in the capital city owing to increases in additional payments, bonuses and interest payments. According to findings of another study, conducted by *Mojazarplata.by*, salaries of top executives increased 10.2% on average in real terms; however, they never reached the pre-crisis level reported in 2008.

In Belarusian regions, state officials started demanding that entrepreneurs raise the minimum monthly wage to an equivalent of at least USD 250. They must have been guided by the orders of then Prime Minister Sergey Sidorsky, who instructed trade union leaders in August 2010 to pay at least USD 200 in the public sector. According to co-chairman of the Republic confederation of entrepreneurs, Viktor Margelov⁷, for many private firms working in regions it would be a problem. In many smaller settlements entrepreneurs find it hard to

⁵ *TUT.BY*: <http://news.tut.by/economics/209254.html>.

⁶ See.: <http://www.zis.by/articles/recruiting/0002940/>

⁷ *Salidarnast*: http://www.gazetaby.com/index.php?sn_nid=31422&sn_cat=34.

pay their employees even USD 200, and wages often stand close to USD 150 a month in both private and state-run enterprises.

The sharp increase in wages was slammed by the IMF, when Resident Representative Natalya Kolyadina said there were no "economic grounds for such a significant increase in compensations"⁸. Furthermore, that rise in wages ran counter to the agreements between the IMF and Belarus: it cost the Belarusian economy about BYR 7 trillion and led to an expansion of budget deficit to 3% of GDP.

In June 2010, the government announced a new target for the average wage in the national economy for the period to 2015, at USD 1,000. In his turn, President Alexander Lukashenko pledged that the average wage in Belarus would reach 80% of the compensation level in neighboring European countries in five years' time.

Social security and pension system

There were no serious modifications in the Belarusian social support system. Subsistence wage per capita increased by BYR 32,980, around USD 11, and child care allowances for children under three years of age were raised by the same amount. On January 1, 2010, child care allowances were made equal to the subsistence wage; however, a *Mojazarplata.by* survey showed that over half of all parents spend the monthly child allowance in less than a week. In 2010, the average per capita minimum consumer budget for a *family of four* rose by BYR 71,930, around USD 26.

On May 1, 2010, the number of social and demographic groups with separate per capita minimum consumer budgets decreased to eight from 18. In September, the government revised the consumer goods basket. Since the Ministry of Health revised wholesome food standards, the government had to introduce changes to the grocery basket: some goods were excluded from the consumer goods basket, some were exchanged for others, and the average lifetimes of clothes and underwear were reduced. New items on the list were rentals of sports equipment and acquisition of a daily newspaper, and spending on cosmetics and hairdressing was increased.

In mid-2010, the government announced plans to alter the approach to the calculation of unemployment payments. The concerned ministry had prepared a draft resolution to raise the unemployment benefit to the average subsistence wage; however, it will take a

⁸ *SLON.RU*: <http://slon.ru/news/466169/>

year or two to make the final decision. At the same time, President Lukashenko said during the VI congress of the Trade Unions Federation that there were plans to gradually "squeeze" the unemployment benefit"⁹, because there were more vacancies than job seekers. Also, it was mentioned at the congress that Belarus would increase the number of jobs at least 30% in the five years to come and "radically" increase labor productivity.

In 2010, Belarus adopted the *Strategy for energy development until 2020*, which envisages an increase in utility tariffs closer to cost recovery levels — from around 25% in 2010 to 34% in 2011. In 2011, households will be paying 100% of costs for natural gas used for cooking and in 2014, the entire cost of natural gas used for heating. A similar approach will be applied to electricity and thermal energy. The housing and utility services system will therefore break even in the next four years. This move may also affect lower-income households, because in 2010, cashless subsidies to lower-income households were replaced by targeted support. That support is definitely lower than the sums provided through subsidies, though.

In 2010, the total volume of targeted social support went up 20.9% on the year to BYR 50.8 billion, or USD 17 million, because of the increase in overall payment of lump-sum social allowances (by BYR 3 billion) and introduction of the social allowance to pay for rehabilitation equipment. The average allowance totaled BYR 51,200 per beneficiary, and the lump-sum allowance amounted to BYR 176,100. For over 70% of recipients, allowances were calculated six months in advance.

Also in 2010, Belarus completed the *State program for prevention of disability and rehabilitation of the disabled for 2006–2010*. During those five years, primary disablement rate decreased to 33.4 per 10,000 people from 41.32 in 2005. In 2010, the number of people with disabilities decreased 0.5% on the year. In 2010, a new type of social allowance was introduced, namely, the allowance to pay for rehabilitation equipment. Some 15,200 people were paid the new allowance last year, around BYR 552,000 per person.

In 2010, Belarus opened 32 new social service offices (to bring the total number to 815) and 60 new social stations (the total number reached 603). Social service centers had around 1.7 million people in their registration books in 2010. The rise in the average wage last year brought about an increase in pensioners' incomes (minimum labor

⁹ TUT.BY: <http://news.tut.by/society/197426.html>.

and social pensions also increased because of the growing per capita subsistence wage). Pensions were raised thrice in 2010 — in January, August and November, while in 2009, they were only increased once, in November. Last year, monthly retirement pensions averaged BYR 612,276, or about USD 205.

Social pensions were recalculated *four times* in 2010, in February, May, August and November. In November 2010, a presidential ordinance introduced extra monthly payments of BYR 40,000 in addition to social pensions provided to children with disabilities aged under 18, disabled citizens of the I, II and III disability groups and children who have lost a family provider. As of late 2010, Belarus had 2,468,900 pensioners, around 26% of the total population. The average pension reached BYR 584,700, about USD 196; retirement pensions averaged BYR 612,100, disability pensions BYR 532,700, survivors' pensions BYR 356,400, and social pensions BYR 244,300.

In late 2010, the authorities announced plans to introduce conventional contribution pension systems starting 2012. It will be based on the Swedish model (Sweden also started reforming its pension system, having only the distribution system). The demand for a contribution pension model is quite strong: based on questionnaires¹⁰, over 40% of Belarusians are ready to make additional savings, and 12.5% are already saving to add to future pensions.

Conclusion: challenges of the year 2011

The election year is over, but the Belarusian economy is still faced with many unresolved problems. From the look of it, real wages will likely decrease in 2011, and faster increase in consumer prices will become one reason for it. Lower wages will enable the authorities to put off ruble devaluation, which is the Sword of Damocles for the Belarusian economy with its substantial current account deficit. Arrangements to contain further rise in real wages, which is not matched with a corresponding increase in labor productivity, will contribute to Belarusian producers' cost-cutting efforts.

Another problem the authorities need to address is excessive employment. Redundancies are planned in the public sector in 2011 in order to keep the average wage level sufficiently high. The situation with employment will largely depend on privatization progress — if the administration of the country agrees to privatize large enterprises,

¹⁰ Conducted by the *IPM Research Center*, see: www.research.by.

a decline in jobs may follow, however, it will affect only bigger towns, where labor markets are capable of absorbing released workers.

As for the reform of the social security system, it is contingent on the general economic situation in the country. Because the authorities pursue the policy to promote employment and subsidize loss-makers, there will be no drastic changes in the social security sector, for example, new measures to provide more support to the unemployed are highly unlikely. In broader terms, as long as the government makes economic growth, the burden of the current account deficit and support for a stable ruble exchange rate its key priorities, the social security system reform will remain a secondary objective.

ENERGY SECTOR: RENT CUTS

Alyona Rybkina

Summary

The terms of Russian energy supplies to Belarus kept changing throughout 2010, and prices of energy products delivered from Russia kept growing, although Belarus still enjoyed lower energy tariffs than other consumers in the region. The relatively low energy prices enabled the authorities to postpone structural reforms in the election year, and the tariff policy in the energy sector remained unrevised. In the oil sector, alternative (Venezuelan) crude oil supplies commenced, however, the declared efficiency of deliveries has never been proved.

The government was in talks with Russia over arrangements to improve the terms of supplies of fuel and energy resources in the framework of the Common Economic Area (CEA). The lack of any structural transformations, despite the adopted *Concept of the development of the energy potential* remained a factor that reduced the efficiency and competitiveness of the sector, as well as its appeal to private investments.

Tendencies:

- The country still depends crucially on Russian supplies of fuel and energy resources despite the attempts to diversify oil imports and increase the share of local fuels in the total consumption;
- The rent, currency proceeds and profits generated by the sector go down;
- The efforts to enhance energy security and develop the energy sector potential are impeded by shortages of financing, technological constraints and current principles of economic policy.

Oil sector

In 2010, Belarus reduced both import and processing of oil for the first time in many years. The country imported 12.9 million metric tons of crude oil from Russia, of them 6.3 million metric tons without paying the export duty and 6.6 million metric tons subject to full payment of the duty. The authorities attempted to diversify imports in order to respond to the new terms of trade with Russia: in 2010, Belarus started importing crude oil from Venezuela (imports amounted to 1.8 million metric tons).

Belarus therefore imported a total of 14.7 million metric tons of crude oil in 2010, down 32% year-on-year (in 2007 – 2009, the country imported 21.5 million metric tons of crude oil from Russia annually).

The introduction of export duties on crude oil and refined oil deliveries from Russia caused a drop in imports of oil products, to 900,000 metric tons in 2010 from 3.8 million metric tons in 2009. Furthermore, Belarus did not export crude oil in 2010, whereas in 2009, exports reached USD 738.1 million in value terms.

Despite the serious reductions in the volume of imports and insignificant domestic oil production, at 1.7 million metric tons, oil products remained a very serious Belarusian export, and proceeds from foreign sales of refined oil remained one of the key channels of foreign exchange revenues (see Table 1). Last year, Belarus exported only 11.3 million metric tons of oil products (to compare: in 2009, export of Belarusian oil products reached 15.5 million metric tons, up from 7.7 million metric tons in 2001). Traditionally, countries beyond the CIS accounted for most of the exports, 80%, however, the structure of consumers changed in 2010: Ukraine accounted for 90% of all deliveries to the CIS, while shares of traditional European importers decreased (the Netherlands accounted for 43% of all exports, the UK for 14%, and Latvia for 8%).

Table 1. Dynamics of oil product exports in 2005–2010

	2005	2006	2007	2008	2009	2010
Share of oil product export in total exports, %	30.4	34.1	31.6	33.0	28.2	26.5
Change in oil product export in value terms, % year-on-year	+ 47.2	+ 38.8	+ 13.3	+ 41.2	-0.7	-3.8

Source: Belstat statistical committee, author's own calculations

The rise in prices of Russian crude oil (the regular price plus the duty) and relatively high price of Venezuelan oil (USD 647 per metric ton) resulted in a dramatic reduction in the profitability of the oil-processing industry for the state budget and poorer foreign trade performance (trade in oil and oil products came to a deficit of USD 909 million). Because of the changes in the terms of oil deliveries in 2010, the two Belarusian refineries were operating at 60 – 70% of their capacity in the first half of the year. OAO Naftan reached its design capacity in September 2010, and OAO Mozyr NPZ oil refinery first used 100% of its capacity only in late October. The profitability of oil

processing kept falling: according to preliminary estimates, OAO Mozyr NPZ's total net profit for the year 2010 reached USD 15 million, down from USD 68 million in 2009.

On the domestic market, oil product prices were raised three times in 2010 (in the first half of the year); the resulting increase in prices was between 15% and 20%. Despite the supplies of duty-free Russian crude, the prices of diesel fuel and gasoline kept rising in order to keep the refineries profitable. AI-95 gasoline price ultimately increased to around USD 1 per liter, which is the highest price in the CIS.

The decisions to increase oil product prices domestically were made contrary to the government's general policy to keep fuel prices low. *Firstly*, the country is interested in having transit haulers fill their tanks in Belarus (rather than in Poland or Lithuania), which means even if return on sales were low, Belarus would still generate substantial profits by selling additional volumes. *Secondly*, the Belarusian side had hoped until very late that the duty-free quota of 6.3 million metric tons would be revised if the country increased sales of oil products on the domestic market.

The intrigue around the privatization of the refineries after all came to nothing. Despite the fact that the deterioration of the terms of oil deliveries affected the profitability of both Belarusian refineries, the country kept insisting not only on very high prices of their assets, but also on additional conditions that potential investors were supposed to meet. Although Russia is still interested in having control over the Belarusian refineries¹, the price and terms of the acquisition of control laid down by the Belarusian authorities discouraged the Russian side. To promote the competition for its refineries, Belarus repeatedly mentioned that its oil assets might be sold to Venezuela, a new partner. In 2010, oil transport by Belarusian oil mains amounted to around 80 million metric tons. The government forecasts a reduction in the volume of transit by 25% starting 2011 because of Russia's successful efforts to build oil pipelines bypassing Belarus. To minimize losses and keep potential investors interested in the Belarusian pipeline

¹ For example, the Program of efficient use of foreign political factors with a view to long-term development of the Russian Federation, which the Russian Foreign Ministry drafted last year on behalf of President Dmitry Medvedev, includes a task to "seek the agreement of the Belarusian authorities to sell to Russian oil companies controlling stakes in Belarusian oil-processing enterprises"; see.: <http://flot2017.com/file/show/none/24253>.

networks, the country is getting ready for privatization of its oil pipes. On December 29, 2010, Gomel city executive committee registered OAO Gomeltransneft Druzhba, and on December 30, 2010, Novopolotsk city executive committee registered OAO Polotsktransneft Druzhba.

Gas sector

In early summer, Belarusian-Russian relations in the gas sector were once again compromised by yet another case of "gas embrace" (a term coined by Russian Ambassador to Belarus Alexander Surikov²: the two countries accused each other of non-performance of obligations. Since the start of 2010, Belarus had been paying for Russian gas the price that it had set independently without having the supplier's agreement, which resulted in a USD 190 million debt accumulated by early summer. The Russian side had warned Belarus that gas supplies could be limited unless Belarus had repaid the debt by June 21. Belarus failed to pay on time, and Gazprom started limiting deliveries at 10:00 on June 21.

According to the Belarusian side, Gazprom's debt for natural gas transit through Belarus had reached USD 260 million. Belarus claimed the pipe should not be shut while the two sides had mutual debts: Gazprom owed Belarus USD 260 million, and Belarus owed the gas giant USD 190 million. Gazprom insisted that it had nothing to do with the gas transit debt, because it was ready to pay for transit at previous rates, but Belarusian colleagues would not accept such payments.³ The fifth "gas war" lasted for three days. On June 20, Gazprom made claims, on June 21 it cut gas supplies to Belarus by 15%, on June 22, deliveries were further cut by another 15%. After Gazprom issued an ultimatum that supplies might be reduced by 85%

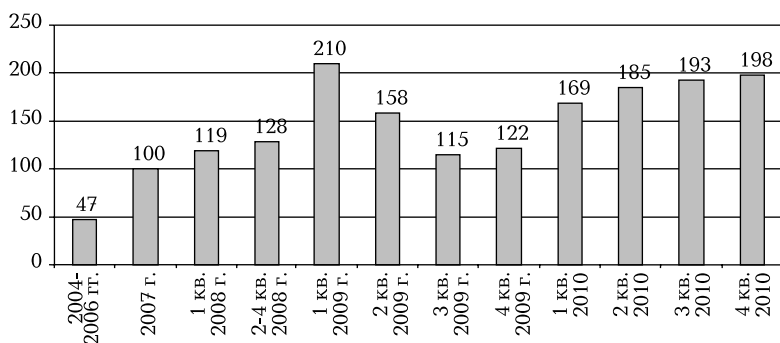
² See.: http://naviny.by/rubrics/politic/2010/06/22/ic_news_112_333561/

³ Spokesman for Gazprom Sergei Kupriyanov explained that a protocol had been signed when the joint venture between Gazprom and Beltransgaz was being established, which stipulates a possibility to increase transit rates to USD 1.74 in 2009 and USD 1.88 in 2010, however, the decision to raise transit rates depended on the introduction of a wholesale markup for Beltransgaz on the domestic market, enabling Gazprom (that now owns 50% in Beltransgaz) to gain profits from its work in Belarus. Kupriyanov emphasized that the markup had been expected at USD 10.47 in 2009 and USD 11.07 in 2010; however, Belarus had failed to introduce it. Therefore, there was no addendum to the gas contract that would increase transit tariffs in 2010.

if Belarus failed to pay immediately⁴, Belarus paid up late on June 22. On June 24, Gazprom transferred to Belarus USD 228 million for gas transit at the old rate of USD 1.45 per 1,000 cubic meters. The remaining issues were resolved a bit later: *Beltransgaz's* wholesale markup was set at USD 11.09 per 1,000 cubic meters and the transit rate was raised to USD 1.88 (the decisions were backdated to January 1, 2010).

In 2010, Belarus imported 21.6 billion cubic meters of natural gas, up 23% year-on-year, or by 4.03 billion cubic meters. Since the natural gas price for Belarus is pegged to the price of the oil basket, and the latter is adjusted on a quarterly basis, Belarus saw quarterly changes in the gas price. The average annual gas price came to USD 185 per 1,000 cubic meters, an increase of 15.6% from 2009. Gas price fluctuations are presented in Figure 1.

Figure 1. Dynamics of gas import prices, 2011–2010



Note: VAT not included

Source: *Belstat* statistical committee

Gas transit remained almost unchanged in 2010 compared with previous years, at 43.2 billion cubic meters, down 3% from the 2009 level. It is the maximum transit volume that the Belarusian gas transport system can deal with. The government expects a reduction in Russian

⁴ According to First Deputy Energy Minister Eduard Tovpenets, articles 8.1 and 8.2 in the contract between Gazprom and Beltransgaz enable the parties to resolve disputes by way of negotiations, which may take up to 45 days, however, this condition was not met. Besides, "we have not paid for gas supplies in the first four months in full, but the deficit is about 15%, not even close to 85%".

gas transit through its territory by around a quarter in the next few years because of the projected launch of Nord Stream and South Stream gas mains. Transit by Yamal-Europe gas pipeline amounted to 27.9 billion cubic meters in 2010, down 8% year-on-year, and by Beltransgaz pipelines reached 15.3 billion cubic meters, up 7%.

Tariffs for consumers

In February 2010, natural gas rates for corporate consumers and individual entrepreneurs were raised by 25% to USD 217 per 1,000 cubic meters from USD 174, and in summer, rates were additionally increased by 13.2% to USD 240 per 1,000 cubic meters (VAT not included). Gas tariffs for households remained unchanged, at around USD 158 per 1,000 cubic meters. The gap in tariffs thus widened, and subsidies of households by industrial gas consumers became even stronger.

Electricity sector

The Belarusian power grid includes six independent regional republican unitary enterprises, or RUPs⁵, also called oblennergos and HV power lines connecting them to power grids of neighboring countries (Russia, Ukraine, Lithuania and Poland). This system is governed by Belenergo concern, which is accountable to the Energy Ministry of Belarus. The power grid of the country is a vertically integrated company, in which generation, transfer and distribution are not separated.

Electrical power generation in Belarus totaled 34.5 billion kilowatt-hours (kWh) in 2010, a rise by 14% from 2009. Import of electricity fell 34% year-on-year in 2010 to 2.97 billion kWh because of tariff disagreements with Russia. Ukraine provided most of the country's imports, with 2.94 billion kWh, whereas Russia delivered only 30.3 million kWh of electricity. In 2010, Belarus exported 270 million kWh of electricity, mostly to Lithuania (there were no electricity exports in 2009). The low volume of export may be attributed to difficult conditions of supplies to the Baltic States. In 2010, electricity tariffs for households remained unchanged, at USD 0.05 per kWh. In 2010, electricity rates for industrial consumers were raised twice, in February and August. The combined increase in prices was at 33%, to USD 0.144

⁵ RUP stands for Republican Unitary Enterprise. All oblennergos are state controlled; there are no plans to turn them into joint stock companies.

from USD 0.114. Therefore, despite relatively cheap natural gas, which is currently the key raw material used to generate electrical power, and low costs (labor, etc.), Belarusian electricity rates for industrial companies are close to those European and highest in the CIS. There are a few reasons for this: there is cross-subsidy to compensate for lower rates for households; some of the costs to generate heat are passed on to electricity producers; the sector remains inefficient and non-transparent; there are many consumers enjoying reduced rates (lower tariffs are compensated by the electricity sector itself rather than the Finance Ministry).

The fact that natural gas prices were growing faster than electricity tariffs resulted in a dramatic deterioration of the situation in the electricity industry. Return on sales fell to 2.8% in 2010 from 5–7% in previous years, mostly owing to the increase in tariffs in the second half of the year (in January–June 2010, the electricity sector reported losses).

Strategy for the development of the energy potential of Belarus for the period to 2020⁶

The *Strategy* envisages at least USD 18–19 billion in investments in modernization of the energy system during that period. Spending on energy saving and promotion of the use of local fuel and energy resources is estimated at USD 16.9 billion. The strategy will be financed through state programs from the state support fund, private and Public Private Partnership (PPP) funds, funds borrowed from international financial institutions and loans of domestic banks.

It is planned to invest at least USD 1 billion in the electricity industry annually. Most of the investments will be channeled into the Belarusian nuclear power plant — projected investments total USD 9.334 billion within 10 years.

Furthermore, it is planned to gradually reform the Belarusian energy system in the next five years (restructuring and tariff reform), which will be crowned by the creation of the national wholesale market of electricity (capacity) and privatization of electricity suppliers. The energy system will be reformed in three phases by 2015.

⁶ Resolution of the Council of Ministers No. 1180 dated August 9, 2010.

Conclusion

In 2010, the energy sector continued providing substantial currency and budget proceeds, however, the volume of revenues markedly decreased. The transition to market prices in energy trade with Russia affects both the macroeconomic stability in the country and the sustainability and competitiveness of the energy sector. The shortage of funds to finance modernization in the Belenergo system, limited financing capacity of the state budget, as well as regulated prices and tariffs reduce the efficiency of energy enterprises. Furthermore, the current privatization strategy and approach to the engagement of technical assistance from specialized international organizations restrains the capacity of the sector to attract foreign investments.

FOREIGN INVESTMENTS: NOT ONLY LURE THEM, BUT MAKE THEM WORK

Maria Akulova

Summary

When it comes to Belarusian efforts to attract foreign investments, the year 2010 looked a lot like the previous year. Foreign capital inflow kept growing at a slow pace; there were no major privatization deals, as the state is still unwilling to put up for sale large property units and is reluctantly ready to cede control only in insignificant enterprises.

Nevertheless, the year 2010 was marked by the country's successful debut on European stock markets with issuing Eurobonds, listed at the Luxembourg Stock Exchange in summer. Furthermore, important steps were made to increase the investment appeal of the country: in 2010, the government abolished licensing of many business activities and lifted the ban on sale of shares of Belarusian joint-stock companies, a move contributing to a recovery of the domestic stock market.

Tendencies:

- FDI does flow into the country, albeit at a very slow rate; privatization is pursued on a case-by-case basis and looks like a forced measure rather than an instrument to introduce structural economic changes;
- New financial instruments are tested; the country enters international stock markets with its debut Eurobond issue;
- Loans still dominate in the structure of foreign financing;
- A number of regulatory documents are adopted to enhance the investment attractiveness of the country.

The state had pinned high hopes on the year 2010 when targeting external sources of financing. Belarus had planned to attract USD 5.6 billion in foreign investments, of them USD 2.8 billion, or exactly one-half, in FDI. By October 1, 2010, FDI inflow had reached USD 1.27 billion, which was short of the target.¹ Against the first three quarters of 2009, when FDI inflow amounted to USD 1.22 billion, there was a slight increase in the share of FDI in the overall volume of external financing, to 26% from 23%; however, in January-September 2010, gross foreign investments shrank 5.3% year-on-year.

Also in January-September 2010, Belarus' foreign liabilities expanded 16%, or by USD 3.533 billion, to reach USD 25.593 billion

¹ See: http://nrb.by/statistics/BalPay/Comment/2010_3.pdf.

on October 1, 2010, or 48.8% of GDP. Although the country's foreign liabilities stood only at USD 6.844 billion, or 18.5% of GDP, back in 2007, last year's increase was well within permissible limits, especially compared with neighboring countries. However, it is not the amount of the debt that is alarming, but the growth rate. As of October 1, 2010, state foreign debt, including the debt of the government and corporate debts guaranteed by the government, was at USD 9.97 billion, an increase by USD 1.607 billion from the start of the year, or by 19.2%, and reached 19.5% of GDP (with the permissible limit previously approved at 20%). Since it will soon be time for Belarus to repay the loans it took in 2008 and 2009 and pay interests on Eurobonds, this pace is truly alarming, as it is not quite clear how the government plans to service this debt.

As is known, foreign investments in Belarus are divided into *three categories* — FDI, portfolio investments and other foreign liabilities of the country. Practice shows that now that the market of corporate bonds is underdeveloped, only the capital coming as FDI is capable of facilitating modernization and enhancement of competitiveness. The remaining types of financing aim at tackling other problems: they help improve the current situation and shore up gold and foreign exchange reserves with a view to further servicing the foreign debt and covering the balance of payment deficit.

The structure of foreign investments in the first three quarters of 2010 indicates that "other foreign liabilities", that is credits and loans of the government and banks, as well as commercial loans, accounted for 54% of overall investments. FDI made up 26% of gross capital inflows in January-September 2010, and portfolio investments made up 20% of the total.

Foreign Direct Investments

The year 2010 did not see a breakthrough in Belarus' efforts to lure FDI compared with the previous year: we already mentioned that Belarus attracted only USD 1.27 billion in FDI in the first three quarters of the year. FDI in Belarus may be split into *two* groups: *Greenfield* investment, or financing of enterprises and facilities built from scratch, and *mergers and acquisitions*. The latter currently dominates in Belarus. The relatively slow increase in FDI inflows in January-September 2010 may be attributed to a few factors. *Firstly*, the presidential election in late 2010 and likely economic reforms that were supposed to follow stopped potential investors from making hasty decisions.

Secondly, relations with the Russian Federation remained cool as never before throughout the year. Given the direct dependence of Belarus on its eastern partner, the tensions increased investment risks and prompted investors to take a pause and see what happened. *Thirdly*, the government gave half-hearted consent to privatization transactions considering privatization only from the fiscal point of view. As a result, there were very few privatization deals.

The key M&A transactions included first of all the transfer of the fourth and final USD 625 million installment by Russian gas giant OAO *Gazprom* for the remaining 12.5% shareholding in OAO *Beltransgaz*. In the spring of 2010, Belarus sold a 52% stake in OAO Minsk watch plant to *Swiss Franck Muller* for USD 12.6 million. Russian OAO *Katren* paid some USD 30 million for a 51% stake in pharmaceutical company *Dominantapharm*.

Furthermore, Lithuanian distributor company *Ipsun* acquired a 90% interest in leasing company *Belfin* for USD 5 million. In the autumn of 2010, Danish brewery *Carlsberg* bought a 25% stake in Belarusian *Olivaria* brewery for USD 10 million and increased in shareholding in the company to 55% from 30%. OAO *Gomelsteklo* and German *Hom Glass Industries AG* reached an agreement on supplies of equipment for *Gomelsteklo* modernization worth a total of EUR 35 million. Finally, in late 2010, Turkish *Turkcell* transferred a USD 100 million tranche to Belarus under the 2008 agreement to buy an 8% stake in ZAO *BeST*.

When it comes to *Greenfield* investments, one of major transactions of 2010 was an investment agreement on the construction of a logistical center in Minsk worth an estimated EUR 15 million between Belgospisheprom concern and Cypriot *Lebortovo Capital Partners Limited*, inked in February. In summer, Lithuanian *Vakaru Medienos Grupe* in association with Swedish IKEA signed an agreement with Mogilev region administration on the construction of a vertically integrated woodworking complex in the free economic zone Mogilev, including factories making veneer and other products from wood chips with a total value of EUR 64.3 million. German *Enertag* and Minsk region administration in 2010 signed an agreement on the construction of a wind farm. In addition, *Alutech* and the *International Finance Corporation* (IFC) signed a deal to finance a EUR 22 million plant to make aluminum constructions in Belarus.

The III Belarusian Investment Forum in Frankfurt am Main held in November 2010 was also quite successful. Compared with the first forum of this kind in London back in 2008, the German forum saw not only many more projects and guests, but also more agreements. The

fact that deals were signed in many sectors of economy proves that Belarus has lots of promising areas to develop in future. However, since most of the agreements signed during the forum were statements of intent, it will depend on the economic situation in the country, political and economic risks, as well as the general investment climate whether they will be successfully implemented. In other words, it will take time to see whether the investment forum was efficient or not.

As can be seen from the above, there were some sporadic successful transactions in 2010, however, the government never made up its mind to allow structural privatization of any large significant enterprises that truly interest foreign investors and instead put up for sale a few less substantial entities in a bid to "minimize losses". The few attempts to privatize state-controlled enterprises were not successful, though. In order to get the final installment of the IMF loan under the SBA-supported economic program, the state opened competitive tenders to sell state stakes in five companies: OAO *Bobruisk Engineering Plant* (starting price set at BYR 16.75 billion), OAO *VolMET* (BYR 2.54 billion), OAO *Barkhim* (BYR 32.97 billion), OAO *Lida* casting and mechanical plant (BYR 12.26 billion), and OAO *Rechitsa textile* (BYR 23.9 billion). There were a couple of attempts to auction state stakes in those five companies, however, there were no bids from potential buyers.

Why were foreign investors not interested in the Belarusian companies? The main reason was, as always, the price, as well as long lists of additional conditions and requirements that buyers were supposed to meet. The price of state assets remains the main obstacle impeding fast privatization. Belarusian regulations disallow privatization of enterprises in which the market value of assets is below the balance sheet value, and, naturally, investors are not ready to pay pre-crisis prices for Belarusian enterprises given the current market situation, competitiveness of the companies that are currently "up for grabs" and risks inherent in Belarus, both economic and political. In addition to high prices, Belarus also demands that future investors preserve the number of jobs and the core activity of the companies in question and contribute considerable monetary and non-monetary assets to the development of the companies. As a result, potential investors were not interested, there were no bids, and the auctions were frustrated.

Two more issues that still remain undecided are the sale of OAO Belinvestbank and a shareholding in OAO Belaruskali. The government made up its mind on the bank long ago, whereas Belaruskali has

always been the country's contingency plan for the worst-case scenario: no one wants to give up one of very few blue chips. The government has not reached price agreements with investors on either project: OAO Belinvestbank was put up for sale at USD 530 million (the government cited its systemic role as one of Belarus' five largest banks). However, BPS-Bank, which is larger than Belinvestbank, was sold for USD 280 million in 2009, so it will be very hard for the government to find an investor ready to cough up almost twice as much for a smaller bank. The same applies to OAO Belaruskali: in 2010, Belarus was ready to sell 25% in the potash maker for USD 6-7 billion, but there have been no specific proposals for concrete investors so far: potential buyers believe the Belarusian administration has set an unreasonably high price.

Portfolio investments

As for portfolio investments, the year 2010 differed radically from previous years: in summer, Belarus completed its debut placement of five-year Eurobonds totaling USD 1 billion with an average weighted coupon yield of 8.7% and biannual coupon payments². In addition, Belarus placed two-year bonds on the Russian market, worth RUR 7 billion, at a rate of 8.7% and quarterly coupon payments³. Belarus clearly benefited from the new financing instrument, which enables it to borrow for long periods of time. The country's entering the global stock market increased investors' interest and awareness, which means further cooperation is facilitated, provided the country pursues the right economic policy.

However, buyers of Belarus' debt securities on foreign stock markets are not supposed to demand structural reforms in Belarus; the only thing they are genuinely interested in is the profit, whereas loans extended by the International Monetary Fund (IMF) presupposed certain commitments of the borrower under the agreed programs. Since the Belarusian government is intimidated by any sort of change, this peculiar feature of deals with debt securities makes bond offerings a welcome instrument. The high price of borrowing through bond placement is a major disadvantage, though, because the coupon rate

² See: <http://www.cbonds.info/by/rus/emissions/emission.phtml/params/id/12968>.

³ <http://www.cbonds.info/by/rus/emissions/emission.phtml/params/id/13672>

of 8.7% is quite high (especially given the fact that prior to its default, Greece placed its Eurobonds at a rate of 6.2%). Unfortunately, there are no indications now that prices will come down soon. On the contrary, the events that followed the presidential election of late 2010 will likely result in higher rates. The new seven-year USD 800 million Eurobond offering in January 2011 proved this: Belarus will have to pay coupons at a rate of 8.95%⁴.

Other foreign liabilities

Other foreign liabilities decreased 30.5% year-on-year in January-September to USD 2.708 billion as of October 1, 2010. The chief channels of "other foreign liabilities" were inflows of foreign credits and loans (71.8%) and foreign trade loans (38.7%), whereas non-residents' bank accounts and deposits with Belarusian banks, as well as "other liabilities to non-residents" shrank -1.8% and -8.7%, respectively, indicating outflows of investments.

Most of the foreign credits and loans were from commercial banks and the final installment of the IMF loan under an economic program supported by a *Stand-By Arrangement*, which reached USD 638.5 million. Commercial banks borrowed USD 1.241 billion, including USD 832.6 million in short-term loans. Significant loan deals concluded by Belarusian banks included a EUR 103 million subordinated loan to Belarusian ZAO Bank Trade Capital from Iranian Tejarat and two syndicated loans taken by ASB Belarusbank in early and late 2010, amounting to USD 60 million and USD 145 million. Both loans were taken in order to support- export-oriented Belarusian producers, credit domestic investment projects, finance modernization and upgrade of productions and construction operations.

In the first three quarters of 2009, Belarus observed a totally different trend, as banks' liabilities under foreign loan agreements decreased by USD 322.8 million. This dramatic change in the situation with foreign loans is attributed to the policy of the central bank, which was insisting on commercial banks' cutting their loan rates for companies. The demand was not unreasonable, because the National Bank had to take measures to encourage the real sector by facilitating lending by commercial banks. On the other hand, soft loans to

⁴ See: <http://www.cbonds.info/by/rus/emissions/emission.phtml/params/id/14035>.

inefficient companies and bankrupt ones increase both the burden on the banking system and the economy's debt to banks.

Arrangements to attract foreign financing and improve the investment climate in 2010

Last year was not really rich in economic reforms or arrangements designed to encourage foreign investors. Nevertheless, some progress was reached, which means the situation may change for the better in the future.

1. Establishment of the government agency "National Investment and Privatization Agency"

On May 25, 2010, the Belarusian president signed ruling # 273 on the establishment of the government agency "National Investment and Privatization Agency" (NIPA)⁵. The objective of the new structure is to increase the efficiency of privatization in Belarus and promote constructive dialogue between potential investors and state authorities of Belarus, which is expected to increase the overall level of Belarus' investment appeal internationally.

As of today, none of the NIPA objectives has been attained. Although the ruling was approved back in May 2010, the documents to flesh out the framework of the new agency are still discussed and reviewed by concerned authorities. Furthermore, it is not clear yet what the NIPA administration will be guided by when identifying state-run entities for sale, as it is the State Property Committee that is responsible for privatization now (however, it is no secret that all decisions regarding privatization transactions in Belarus are approved personally by the president). Under the circumstances, the relevance of the newly established privatization champion is somewhat doubtful.

2. Abolition of licensing of some business activities

On September 1, 2010, the president signed ruling # 450 on licensing of some activities⁶. Given the propensity of the state authorities to exercise total control over all types of business activities in Belarus, the document is supposed to have a major positive impact on investment inflows. Starting January 1, 2011, the state considerably expanded the list of activities that businesses can engage in without taking out licenses. Licensing was abolished for woodworking, extraction of minerals, fishing and hunting business, auditing

⁵ See: <http://www.pravo.by/WEBNPA/text.asp?RN=P31000273>.

⁶ See: <http://www.pravo.by/WEBNPA/text.asp?RN=P31000450>.

activities, travel services, transport and forwarding business, geodesic and map-making activities, and retail, except for retail of tobacco goods and alcohol. The president also abolished licensing of investment funds' business, which is expected to foster the development of the financial and stock markets of the country.

3. Abolition of the moratorium on sale of shares.

On January 1, 2011, Belarus lifted the ban on sales of shares in joint-stock companies⁷. The move will encourage the Belarusian stock market, which had remained passive in the past few years. Potential buyers of shareholdings in Belarusian companies are also expected to step up their efforts to grab larger stakes in most appealing businesses. Furthermore, the decision will result in an increase in domestic investments, because households, entrepreneurs and companies have been offered additional instruments to improve their well-being or gain additional profits through acquisition or sale of shares.

4. Directive № 4 on liberalization.

Directive № 4 "On the development of entrepreneurial initiative and encouragement of business activity in the Republic of Belarus"⁸ was adopted on the last day of the year. The document aims at enhancing the protection of investors' and entrepreneurs' property rights and will definitely boost business initiative in the country. The directive stipulates more liberal price-formation and labor compensation methods, preferential tax treatment of some activities or even abolition of taxation and reduction in the number of documents required to conduct business. On the other hand, some problems still remain. One of them is the implementation timeframe; besides, the directive fails to provide the stock market of the country with promised incentives, whereas the insurance market still expects equal treatment of state-owned and private insurers.

Forecast for 2011

Given the current uneasy situation, which is further aggravated by the events that took place following the presidential election in late 2010, experts agree that the year will be very tough. On the one hand, the discrepancies in Belarusian-Russian relations that entailed a reduction in support from the eastern neighbor make further conces-

⁷ See: <http://www.stock.bcse.by/index.phtml?page=35056&iid=38875>.

⁸ See: <http://www.president.gov.by/press107177.html>.

sional lending and supplies of resources at relatively low prices quite unlikely in the near future. On the other hand, the harsh response of both the US and EU to the events of December 19, 2010 and non-recognition of the election results that came later will definitely affect the investment attractiveness of the country.

Furthermore, the decision of the state to adopt the operational administration scheme at ZAO Pinskdrev in early 2011 became another controversial step increasing investment risks, as investors may have concerns about the real degree of investor protection in Belarus. The country should not expect many investors to come to Belarus and acquire or found an enterprise locally. Under the circumstances, foreign capital will only be interested in the so-called "blue chips"-larger strategic companies that form the backbone of the Belarusian economy, especially OAO *Belaruskali*, OAO *BelAZ*, OAO *MAZ*.

It looks like Belarus will have to sell at least one of them eventually, even if potential investors offer lower prices. Belarus will definitely continue offering Eurobonds on European and Russian markets. However, given the current attitude of the West to the Belarusian administration, the coupon yield of 8.7% of the debut Eurobond issue seems quite lucky, and further issues will prove much costlier. The chance is slim Belarus will be able to borrow from the IMF or any other international organization again, because Belarus failed to meet its commitments as soon as it received the final tranche of the loan, and in order to apply for a new loan, the Belarusian authorities will have to pursue the economic reforms that the West originally expected. Should Belarus wish to borrow from Russia or China, the country will very likely get into the area of influence of the creditor.

The Belarusian authorities will have to respond to very serious challenges in 2011. Although the situation still remains stable (it is not 2012, when the state will have to spend considerably to service the foreign debt), there is too little time left for the government to persuade investors to get back into the country. It looks like the government will have to make concessions to receive foreign financing, and further liberalization and economic reforms seem to be the best options for the authorities, or else they will have to put state property up for sale at giveaway prices. Last year's arrangements to liberalize and develop the stock market will have a positive effect; however, as things stand now, they are simply not enough.

AGRICULTURE: GROWTH AMID POVERTY

Konstantin Skuratovich

Summary

The year 2010 proved quite successful for Belarusian farms. Despite the unprecedented heat last summer, gross farm output increased from 2009, profitability went up, and the share of loss-making farms fell. At the same time, production costs soared, and so did debts of the sector to the national economy. Because of their low paying capacity, farms remain the weakest link in the chain of settlements between economic entities and the largest and least reliable borrower. The problem of technical modernization of farms is tackled chiefly through additional lending. Belarusian agribusiness is up against a new challenge – to increase production volumes and exports.

Tendencies:

- Increase in farm production and reduction in losses of Belarusian farms are not enough to cut the combined debt of the sector;
- Agribusiness, the largest borrower of all branches of economy, pays its workers the lowest wages;
- Government keeps increasing loans to the sector to promote further growth in production and export.

Growth in output amid growing debts

According to the National Statistical Committee, overall farm production reached BYR 30.8 trillion in 2010, an increase of 2% year-on-year in comparable prices. Belarusian farms reported BYR 16.6 trillion in revenues, up 17.5% on the year, production costs went up 12.5% to BYR 13.4 trillion, and net profit hiked 54.8% from 2009 to BYR 1.9 trillion. Sales margin increased to 4.2% from minus 0.2%, the number of loss-making farms fell to 20 from 32 (their share went down to 1.2% from 1.9% of the total number of farms), and net loss dropped to BYR 39.7 billion from BYR 45 billion.

At first thought, last year proved rather successful for Belarusian agricultural enterprises. Despite the abnormally hot summer, the country managed to increase farm output from previous year's level, saw higher profits, lower losses and smaller share of loss-making farms. One thing that is alarming is the substantial increase in production costs, which will inevitably entail a rise in food prices. The financial results of Belarusian agricultural organizations are traditionally a

matter of concern. As of January 1, 2011, farms' receivables were at BYR 2.2 trillion in current prices, a rise of 29.4% from January 1, 2010. Overdue receivables went up by BYR 26 billion to BYR 489 billion, and their share in total receivables rose to 22.4%. Although gross production increased 2% year-on-year in 2010, the growth was discounted by poor financials: overdue credit commitments of Belarusian farms rose 16.7% in 2010 to reach BYR 2.2 trillion. Agricultural enterprises therefore accounted for 35.9% of total overdue debts under loan agreements in the country. Overdue payables exceeded receivables 4.6 times as of January 1, 2011.

As of January 1, 2011, farms were responsible for 32.3% of overall arrears of taxes and dues, and social security payments in the country and 66% of overdue loans. Due to their insufficient paying capacity, farms appear to be the weakest link in the chain of settlements between economic entities and the largest and least reliable borrower (although the share of agribusiness in the country's GDP is below 10%).

Respites, preferences, debt remissions

The financial performance of the agricultural sector seems quite poor, however, in reality it is even less satisfactory, given the large share of farm produce made by private households and farmers. According to *Belstat* statistical committee, farmers and private households account for a third of the entire agricultural output in the country. We cannot provide precise statistics here, however, since all the remaining indicators are taken from official sources, we will have to draw this conclusion. In this case, the share of state-controlled ("organized") agribusiness in the country's GDP stood as low as 6–7% in 2010, with overall output amounting to BYR 20–21 trillion in value terms.

When assessing the financial standing of Belarusian farms accountable to the Agriculture Ministry, we have to bear in mind that all of them were allowed to repay current liabilities in installments within 10 years of March 1, 2010, when a corresponding presidential ordinance came into effect. The overall debt of Belarusian farms was cut by BYR 1.6 trillion, to BYR 7.7 trillion. Overall liabilities of domestic farms stood at BYR 20 trillion as of March 1, 2010, and by the end of the year, farms' total debt must have exceeded BYR 22 trillion.

Judging by the current financial situation in the sector and trends of the previous couple of years, we can make a definite conclusion about the prospects of financial rehabilitation of agricultural organi-

zations. As of today, there are no prerequisites for major improvements in farms' financial health.

Nevertheless, Belarusian agribusiness has very ambitious targets to meet. Prime Minister Mikhail Myasnikov set the agricultural sector a task to increase export of produce to USD 7 billion annually by 2015 while ensuring at least a USD 4 billion trade surplus. Such a foreign trade breakthrough would be an extremely tough task even if Belarus were able to keep a very high pace of agricultural production and secure sustainable financial performance. However, as Myasnikov himself had to admit, "the economic situation in the sector is bad... outrageous."¹ The premier worries about the impossible debt burden on agricultural producers and calls on the government to "deal with it." How can this problem be addressed? Thus far, the relations between farms and creditors have been built on a most simple scheme: decisions would be made to reschedule loans, the debt would not be pegged to the inflation rate and farms would easily repay it within a few of years. Alternatively, a "zero option" was used: debts would be written off to offer borrowers a clean slate for further relations with creditors. The government would also resort to increasing procurement prices of farm produce in a bid to balance the debtor-creditor relations.

Mixed economy, modifications in statistical recording, farm production in the private sector

Belarus has a mixed agricultural economy, with state organizations (experimental facilities, institutes, seed and breeding farms, subsidiary and test/experimental units with educational and scientific facilities), agricultural production cooperative societies and other organization having the same legal status, farm enterprises, personal subsidiary plots and gardening cooperatives. The law has prohibited the authorities to interfere with the work of organizations that are not subordinate to the Agriculture Ministry; however, statistical agencies keep adding their production volumes to the figures reported by state-controlled farms accountable to the ministry to have gross farm output figures. At the same time, the responsibility for meeting production targets lies with the ministry, region and district executive committees.

Back in the 1990s, when partial liberalization of land relations resulted in a sharp increase in production by the private sector,

¹ See: *BelTA* // http://www.belta.by/ru/all_news/economics?id=542724.

administrative and controlling agencies seemed quite satisfied with improved statistics. However, market reforms were phased out shortly afterwards; the situation was further deteriorated by depopulation trends, especially in rural areas. In the period between the two population censuses of 1999 and 2009, rural population fell by 645,000 people, or 21%, to 2.439 million people. In that decade, the number of rural households, key agricultural production units, dropped 18%, or by 1,041 units.² These precise figures are not good enough to determine the real reduction in the rural production potential, because the natural loss of population is caused by ageing. Senior citizens residing in the countryside are not only demotivated, but also incapable of working on their personal subsidiary plots as intensively as before.

It appears the initiative expressed by then Agriculture Minister Semyon Shapiro — to set growth targets for agribusiness annually without including the combined output of private plots — became quite popular with professionals despite the fact that the government dismissed it. The minister claimed the target should be modified, because the output of private subsidiary plots kept falling, and the process was unstoppable. Since private plots account for 36% of the gross farm output in the country, the tendency toward a farm production cutback (by around 5% year-on-year) in the country may only be offset by at least a 19% increase in output by farms subordinate to the ministry³. The Agriculture Ministry is naturally unwilling to bear responsibility for the farms and plots that it cannot influence directly. In addition, officials could have major concerns about the authenticity of statistical information about the output of private subsidiary plots. The thing is that statistical data are taken from registers compiled by village councils based on the information that households provide on a voluntary basis, therefore, there is sufficient room for manipulation (village executive committees that are supposed to report relatively favorable statistics are virtually forced to fudge figures).

Common sense finally prevailed, when the Council of Ministers issued resolution No. 88 to oblige BelStat to conduct random tests of private plots and use the findings as the basis for reports on farm production. According to *Belstat* specialists, some 600 plots must be surveyed to get objective information (about 0.3% of the total number). Surveys will be conducted by 80 professional interviewers-statisticians

² See: *National Statistical Committee of Belarus* // http://belstat.gov.by/homep/ru/indicators/pressrel/Census_households.php.

³ See: *Interfax News Agency* // <http://www.interfax.by/news/belarus/61339>.

who will receive bonuses of BYR 875,000, or USD 290, in addition to their monthly wages.

The proprietors of subsidiary plots are expected to take part in questionnaires voluntarily; they will be paid one base unit of BYR 35,000 a month. Surveys of this kind conducted abroad proved quite efficient⁴, and Belarus hopes the global experience will help it receive authentic statistics of farm output by private subsidiary plots.

Budget cooperatives, compensations, low incomes

Given the prevalence of cooperative organizations in the agricultural sector, it would be more reasonable to address incomes of cooperative members rather than wages, or at least split the incomes received in advance to pay compensations and those received at the end of the business year. Since farms quite frequently report losses instead of profits, cooperatives do not pay their members any bonuses, however, they do not make deductions from the sums already paid, either.

It is for that reason that the specifics of economics within a cooperative were neglected long ago, and all incomes received by members of production agricultural cooperatives are accounted for as "wages". This illustrates the complete isolation of members of cooperatives from participating in management processes. In fact, cooperatives have been transformed into state-controlled budget-financed organizations, where wages are paid on the so-called "leftover principle". In other words, the size of wages is hardly pegged to economic performance; it is simply pushed toward the level of compensations paid in other sectors.

For example, in the first quarter of 2010, monthly wages in Belarusian agribusiness averaged BYR 652,000, 62.7% of the average wage in the country and 55.6% of the average wage in the manufacturing sector. In the fourth quarter, the nominal average wage reached BYR 936,000, up 43% from the start of the year, but the proportion remained unchanged: 64.5% of the average Belarusian wage and 58.9% of the average wage in industry.

Agribusiness ranked last by the size of wages in the national economy in the fourth quarter of 2010, behind public catering with BYR 1.005 million and non-production public services with BYR 1.013 million. Based on sample surveys of households, the average per capita

⁴ *Telegraf* // <http://telegraf.by/2011/01/v-belarusi-vvoditsja-obsledovanie-lichnix-podsobnix-xozjajstv.html>.

disposable incomes in towns and urban-type settlements were at BYR 781,000, 30% above the average income in rural settlements. On average, the share of lower-income households (with disposable incomes below the minimum subsistence level) in Belarus stood at 3.4%: 2.7% in towns and urban-type settlements and 5.4% in rural settlements.

Technical retooling: financial problems and efficiency

In 2010, the Belarusian president signed an ordinance on the national program for supplying agribusiness with modern machinery and equipment and construction, maintenance and modernization of agricultural facilities for 2011 – 2015⁵. The *program* came into effect on January 1, 2011 and is implemented based on the following scheme. The Agriculture Ministry and region executive committees adopt annual equipment procurement plans and submit them to state-run Belagroservice, which is responsible for bulk purchases financed from bank loans that are extended against the security of the government and region executive committees.

In 2011, loans are provided for the period until July 1, 2019 and are to be repaid starting January 1, 2012 in equal monthly installments without interest payment. The machines and equipment purchased under this scheme (on financing lease terms) are transferred to agricultural organizations⁶.

The government thus confirms its adherence to the policy of facilitating technical re-equipment of domestic farms by way of concessional lending. The problem is urgent for Belarusian agribusiness: the physical infrastructure of most farms is outdated, and more and more machines and tractors need replacements.

However, the main objective of the campaign to re-equip the agricultural sector is to introduce innovative sophisticated technologies, advanced energy-saving solutions and methods to increase the efficiency of the use of material and energy resources rather than to simply make up for decommissioned machines and equipment. Apart from organizational matters, in which the country has accumulated substantial experience (albeit quite ambiguous, experts say), Belarus will also have to address very serious technical challenges. It is planned to focus modernization efforts on domestically-produced machinery, which, some experts claim, is better than foreign analogues or at least

⁵ See: *BelTA* // http://www.belta.by/ru/articles/officially?cat_id=1402.

⁶ *Agriculture Ministry* // <http://www.selhoz.by/news/view/1721>.

has comparable characteristics. Many operators of equipment and independent experts disagree, though.

Availability of farm machines in Belarusian farms⁷ (late 2010, units)

	2004	2005	2006	2007	2008	2009
Tractors*	10,288	9,452	8,689	7,812	6,947	6,292
Ploughs	2,958	2,790	2,474	2,072	1,638	1,429
Cultivators	6,676	6,436	5,599	4,697	3,852	3,342
Seeding machines	5,014	4,616	4,273	3,445	2,865	2,454
Harvesters:						
grain harvesters	2,160	1,980	1,849	1,670	1,543	1,371
maize harvesters	75	89	94	61	53	43
fodder harvesters	751	617	495	410	363	264
potato harvesters	10	4	8	7	10	9
Beet harvesters (not including top harvesters)	999	782	674	550	410	363
Mowers	1,043	957	882	757	647	560
Pickup presses	536	497	486	412	366	355
Rotary windrowers	1,404	1,287	1,186	999	937	812
Sprinkling machines and irrigating machines and units	46	36	29	29	22	18
Distributors of solid mineral fertilizers	590	603	591	590	576	581
Fertilizer applicators:						
for solid organic fertilizers	357	314	273	217	195	206
for liquid organic fertilizers	162	156	165	178	176	175
Tractor spraying machines and dusters	773	793	811	777	763	713
Milking machines and installations	1,252	1,058	944	784	590	495

* Not including tractors with mounted earthmoving, reclamation and other machines

The key problem is financing, and in the next five years, drastic measures will be called for to tackle it. During a meeting with the newly appointed government, Lukashenko admitted that there were serious defects in the action plan to implement the *State program for restora-*

⁷ See: Data Processing Center of the National Statistical Committee of Belarus // http://www.ivcstat.by/index.php?option=com_content&view=article&id=67&Itemid=65

tion and development of the village, and emphasized the problem of efficiency. "Agriculture has not yet reached self-sufficiency and is far from self-financing".

The president was dissatisfied with the range and quality of farm produce, low increase in exports and absence of visible progress in approaching new markets. According to him, agribusiness is capable of achieving financial sustainability by doubling revenues by 2015, increasing profits at least nine times on the 2010 level and boosting profit margin to 11%.⁸ The trend observed in the previous years continues: the authorities demand improvements in efficiency while setting ambitious gross production targets.

Conclusion

The year 2010 did not see any new methods to tackle the traditional problems of Belarusian agribusiness. The key performance indicator is the growth in farms' gross output, and the main instrument to attain the targets is the bank loan. The debt of the sector grows much faster than production volumes and export proceeds. In the meantime, farms that are not subordinate to the Agriculture Ministry account for a third of farm output and do not require budget injections, partial payment of interests on bank loans from budget funds, debt remissions and other traditional measures to "support the village".

The Belarusian agricultural sector is therefore split into two subsystems with polar organizational systems. On the one hand, there are formally independent farms subordinate to the Agriculture Ministry that enjoy state resources either free of charge or at reduced rates; on the other hand, there are private farms and private plots that are independent of the state both de-jure and de-facto. The latter are mostly small commodity productions (farms) or subsistence plots (households), however, they do produce added value. On the contrary: agricultural organizations mostly report net losses (negative added value) — this conclusion can be drawn from comparisons of the value of output and costs.

All programs to promote agricultural production target exclusively the farms subordinate to the Agriculture Ministry and offer the good old solution — production growth through increases in lending volumes. The poor results registered in the past few years show what the prospects of the sector look like.

⁸ See.: *BelTA* // http://www.belta.by/ru/all_news/president/Selskoe-xozjajstvo-Belarusi-dolzno-vyjti-na-samookupaemost—Lukashenko_i_544048.html.

APPENDIX

Dear readers!

BISS Trends is a quarterly analytical survey covering the key political, economic, social, foreign political and cultural tendencies in contemporary Belarus. The project is an attempt of an “early warning” and near real-time contemplation of the modifications that may lay the foundation for fundamental, core transformations in the country.

BISS Trends presents an assessment of changes rather than the overall condition; it is an attempt to articulate shifts that may not be obvious today. A sort of chronicle of contemporary life, *BISS Trends* looks into the future and helps shape a vision of the country, in which we will live tomorrow.

Belarusian Yearbook 2010 presents the *BISS Trends* issues covering not only the year 2010, but also early 2011, mostly because of the December 19, 2010 events that modified the country, altered every trend that we monitor.



Belarusian Institute for Strategic Studies

SYMBOLS USED IN THE REPORT:

- ▲ progress (upward trend)
- status quo
- ▲ minimal progress
- ▼ minimal regress
- ▼ regress (downward trend)



2 January – March 2010

Executive summary

The basic trends in the political, economic and social life of Belarus in the first quarter of 2010 did not undergo significant changes compared to the previous period. The period under report was characterized not by new trends but rather by accentuation of existing ones, such as the dual-track process of ongoing reversal of political liberalization and the simultaneous continuation of a limited and superficial economic liberalization, which, however, still fails to bring about any systemic changes. Zigzags in foreign and cultural policies indicate that the Belarusian authorities are trying to win for themselves room for maneuver, without committing firmly to a particular scenario of development (liberalization vs. increased repression, pro-Russian vs. Pro-European vector of foreign policy etc.) This tactic will be feasible and will be maintained for as long as it will be possible to continue geopolitical maneuvering and obtain external funding from various sources, separated by fault lines of “civilizational” conflict.

In the **political sphere**, a paradoxical simultaneous process of political de-liberalization and democratization (as noted in the preceding report), ceded to a simultaneous regression in both areas. De-liberalization was manifested in new restrictions on the freedom of speech (the imposition of government warnings on independent media, searches in the apartments of journalists) and on the freedom of association (the changes in the law “On public associations” and “On political parties”), as well as in repressive actions against street protests. Signs of de-democratization include intensification of pressure on opposition political parties during the local election campaign, including those ready to serve in election commissions. Already in the first quarter of 2010 it became clear that local elections would not bring any noticeable breakthrough in the political life of the country, and will not be a factor in the democratization of Belarus.

In the **area of economic policy**, we note the continuation of facade liberalization triggered by short-term needs of securing foreign loans and investments, and bringing no fundamental changes to the rules of the game in the economy. Thus, legislative changes the field of taxation, international trade, and credit, have been made with only one purpose: that is, to increase the rating of Belarus in the World Bank report *Doing Business Report*. More fundamental changes, such as privatization, were ruled out. At the same time, the Belarusian authorities, in our opinion, have shown signs that they might have reconsidered their approach to privatization of enterprises where the change in ownership and restructuring may involve the dismissal of employees (as shown by the privatization of the Minsk watch factory).

In the **field of quality of governance and the rule of law**, we mark a minimal improvement related, again, to the work of the government to bring Belarus into the top 30 countries of the World Bank rating. Most measures taken by the government and discussed in the report remain being draft laws.

In the **geopolitical orientation**, we mark a certain crisis in the “multi-vector” policy of the Belarusian authorities: the inability to stop political repression led to a further deterioration of relations with the EU (the conflict around the Union of Poles in Belarus), while relations with Russia have been soured by disagreements over the Customs Union. Attempts to find new

vectors of foreign policy through economic cooperation with Venezuela and China may not provide tangible economic results, but will make good PR on the background of a crisis in relations with the “geopolitical monsters”. At the same time, attempts by Lukashenko to bring Latin American oil to Europe may have interesting long-term consequences for the entire region.

Finally, in the *field of cultural policy*, we note a continuation of the policy of limited Belarusization, and Europeanization. As we predicted, the authorities have launched a new campaign to strengthen the Belarusian identity, the country observed the day of the Belarusian language, cultural ties with European countries (France, Italy, Lithuania, Greece) have intensified. For the first time, an official who allowed derogatory remarks against the Belarusian language and culture was subject to punishment: such statements were a commonplace among top officials just a few years ago.

TREND 1

Political democratization and liberalization ▼

Assessment of the forecast given in the last issue of BISS Trends

The trend of political de-liberalization identified in the preceding period largely continued in the first quarter of 2010. Political liberalization has halted in the field of freedom of speech and of freedom of association, with even liberal rhetoric in these areas having come to naught. Repression against street protesters continued with the same intensity as in the previous period. We view this not as a short-term lapse of liberalization during the local council elections, but rather as a long-term trend that will go on for at least the duration of a “grand political year” (i. e., until the end of the election campaign in early 2011).

In the field of political democratization, the authorities stick to the rhetoric about the “unprecedented democratic” nature of the local election campaign, which takes place on the basis of the modified electoral law. This rhetoric is justified by the window-dressing improvements in the electoral process (a somewhat larger number of opposition representatives allowed to join election commissions, there were no refusals to register initiative groups to collect signatures). These improvements, however, are rather sporadic, as they do not affect the nature of the campaign as a whole. Pre-election apathy is also programmed by the “lethargy” of the opposition, which for a large part plays only a nominal role in the campaign. The repressions against opposition campaign activists had not been milder compared to previous local elections. Furthermore, it even intensified to some extent, and sometimes acquired new forms some (e. g., some opposition members of election commissions have been threatened with dismissal if they do not abandon their work in commissions).

The authorities continued to skillfully manipulate the dialogue with the West, aptly discovering and pressing sensitive points. The made-up and unprovoked escalation of the conflict around the Union of Poles (the stick) was carried out on the background of the “liberal” (by Belarusian standards) electoral campaign (the carrot) is intended to shift the attention of Europe towards an issue that is meaningful for the EU but insignificant for the Belarusian authorities. Once the EU attention is focused on the Union of Poles, it is not paying attention to the repression against opposition activists at local elections.

Justification for a new trend (January-March 2010)

The rollback of political liberalization has been monitored in all the areas. In the area of political democratization, we observe new window dressing for achieving the desired election

result by democratic means: this includes activation of pro-government parties, emergence of new types of informal repression, intensification of the pressure on the opposition members of election commissions.

In the area of freedom of association, we noted no movement towards liberalization (the number of newly registered organizations has not increased, none of the organizations created by government opponents have been registered, several organizations have been refused registration). Amendments to the Law on Public Associations and to the Law "On political parties" that entered into force on February 5, 2010, create conditions for further restrictions on the freedom of association. The authorities failed to fulfill the promise to abolish Article 193-1 of the Penal Code.

Warnings to independent media (including the most widely-read independent newspaper, *Komsomolskaya Pravda v Belorussii*, which was issued a second warning within a year) and to the Belarusian Association of Journalists, were called upon to restrain the press and to encourage self-censorship in the run-up to important political events. This has been achieved to some extent, as the editor of the *Komsomolskaya Pravda v Belorussii* was replaced. A decree on regulation of the national segment of the Internet was adopted. Although most odious and controversial provisions in a draft decree leaked in December 2010 were removed, the decree still means, in the opinion of critics, to stifle dissent in cyberspace.

The number of administrative prosecutions for political reasons in general, and protesters in particular, has increased slightly compared to the first quarter of 2009. According to the database of the Human Rights Center *Viasna* period, there were 7 cases of administrative arrest recorded (five in the previous period), 84 cases of administrative fines (73 in the previous period). Street protests were brutally suppressed with no exceptions (in contrast to the previous quarter).

At the same time, collection of signatures for candidates for local councils (including in the form of pickets, which now can be done in any non-prohibited areas) has passed without incidents.

Description of key events that defined assessment of the trend

Local elections in Belarus are insignificant in terms of altering the distribution of power. This year to campaign, however, clarifies strategies and approaches developed by the authorities with respect to political liberalization and democratization. Hence, these local elections will not be as routine for the authorities as it was in previous local elections in 2007. Rather, they offer an opportunity to work out some new tactics in the conduct of political campaigns that can be applied on a full scale in the future. Some of these new approaches were observed beforehand, and can now be observed in their entirety: a demonstrative but formal consideration of the recommendations by the West in those areas that do not directly affect the result of the campaign; extension of the freedom of action for the opposition in campaigning and information work with the expectation that the internal contradictions and opposition's own weakness will not allow it to take advantage of these opportunities; the application of more subtle forms of repression against opposition activists, especially concealed harassment in the workplace; the manipulation of Western public opinion by artificially creating controlled conflict situations in sensitive areas such as the Union of Poles.

Description of additional events

The conflict around the Union of Poles; Searches in apartments of journalists' (including offices of *BelSAT*, *Narodnaja Volja*, and *Charter-97*); Denial of registration to the Assembly of Democratic NGOs.

Description of events contrary to the trend and rationale for why they do not change the picture

In January, allegations were made by the administration about the possibility of resuming the work of the Community Advisory Council at the presidential administration. In February, the President gave an oral order to develop a draft law on alternative military service, after which the process was initiated to review criminal cases against persons convicted for evading military service. The politically motivated criminal case against businessman Autukhovich was heard in an open trial.

Brief forecast for the next quarter

The opposition will enjoy unparalleled opportunities for campaigning in local elections. This, however, will be offset by the various “technical” difficulties, such as the refusal by the printing houses to print leaflets of opposition candidates, seizures (including “erroneous”) of already printed editions, tacit harassment of the campaigners. The number of deputies elected from the opposition in local councils will be minimal (up to two dozen councilpersons elected in the rural, possibly district and small town councils). Informal repression will end one month after the local elections. But at the same time the pressure on the independent media, political parties and other associations will go on via warning, suspension, verification, and especially other forms of harassment (tax penalties, claims for defamation of private individuals, measures to regulate Internet editions). The Advisory and Monitoring Council will be reactivated, but it will be busy discussing the nature and objectives of this body, rather than substantive issues.

Brief forecast for the entire year

By the end of the year we can expect that criminal persecution for “nonpolitical” articles of the Criminal Code against distinct opponents of the authorities will resume. Mass protests will be repressed unceremoniously, and wide-scale administrative harassment of the opposition will resume with the beginning of the presidential election campaign by the end of the year. The number of registered newspapers, political parties and associations will not increase, while the number of registered NGOs in 2010 will be less than a hundred. However, we expect immediately before the presidential election a possible goodwill gesture to the West (it could be done, for example, through some form of legalization of the Union of Poles led by Andzelika Borys).

TREND 2

Economic liberalization —▲

Assessment of the forecast given in the last issue of BISS Trends

The Belarusian authorities continued in the first quarter of 2010 to pursue a limited liberalization of the economy as was noted in the first issues of BISS Trends. Such liberalization does not aspire to change the fundamental rules of the game in the economy, but rather to create a facade of attractiveness for foreign investors in order to solve the short-term goals of acquiring foreign loans and investments. In the first quarter of 2010 there is also a sharp increase in undercover fighting of various power clans, seeking to enhance their influence in the conditions when the amount of available rents is being reduced. Such infighting makes it impossible to pursue serious institutional changes in both the economy and the structure of management, as it merely stimulates the search for new sources of financing loyalty, such as wide-scale nomenklatura privatization. However, the conclusion of the first privatization deal with the possibility of dismissal of labor (privatization of the Minsk Watch Factory) was a

landmark event which indicates that the Belarusian authorities may have abandoned some of its postulates of the old social contract.

Justification of a new trend (January-March 2010)

The main trend of the first quarter of 2010 consisted of the changes in privatization policy of the authorities. It should be noted that a pilot privatization program pursued in line with the agreement with the IMF had failed. According to a letter of intent signed by Prime Minister Sergey Sidorsky and Head of the National Bank of Belarus Petr Prokopovich on September 30, 2009, the government promised to sell controlling stakes in 5 major state-owned enterprises through an open, transparent and competitive international tender before 28 February 2010. At the moment (the end of March 2010), the IMF Executive Board completed the fourth review of the latest stand-by program, and all that was done by the Belarusian side was a list of 5 public companies, whose shares will be sold at an auction in 2010 with the participation of an outside consultant (the list was confirmed by the order of President of Belarus Alexander Lukashenko on March 1, 2010). The list includes the following joint stock companies: "Babrujsk Machine-Building Plant" (Mahileu Region), "VolMET" (Vaukavysk, Hrodna region), "Lida Foundry-Mechanical Plant" (Hrodna region) "Barhim" (PM Baranavichy, Brest region.) and "Rechitsa textiles" (Homel region). Those are relatively small businesses, and only "Barhim" may be of any interest to investors.

Description of the key events that defined assessment of the trend

In spite of the fact that the authorities are trying to prove their interest in privatization (in particular, the head of the State Property Committee of Belarus Georgy Kuznetsov reported at a press conference on February 17 that the Belarusian side intends to prepare orders for the privatization of 20 other Belarusian enterprises in accordance with the recommendation of the IMF), the program had not been implemented both in timing and in substance. The first deputy chairman of the SPC Sergey Pyatkov stated in January 2010 that the privatization of these enterprises should be implemented, backed by the IMF Privatization Agency. Creation of a privatization agency was one of the most important structural criteria set up by the IMF stand-by program. A new trend in the economic liberalization was revealed when preparing the program: solutions to fundamental problems of economic policy are being delayed because of the struggle between various power groups for control of structures and resources. In this case, the Agency was originally planned to be created on the basis of the SPC, the authorities decided later, however, to create a structure that combines the agency for privatization and the investment agency.

The evaluation of three out of five companies from the list is done by the Rothschild group. Its participation is explained by the hope that the consultant evaluating the assets will be more acceptable from a fiscal point of view. However, the widespread belief is that the government delays the privatization process, hoping that the pre-crisis prices is questioned by two scandalous privatization deals.

According to Presidential Decree № 93 signed on March 1, 2010, the government agreed to sell a plot of land in the center of Minsk of more than 6 hectares to a foreign legal entity from Oman. Land ownership is transferred for 10 million USD without holding an auction, for the purpose of constructing a multi functional complex within 6 years. The sale price is surprisingly low given that the official assessment of the plot value is three times higher than the sale price. The Land Code forbids selling the land at a price lower than the register value "unless otherwise is decided by the President". The only reasonable explanation for this deal is the existence of certain important component that had not been made public.

Another rather scandalous deal is the sale of the Minsk Watch Plant to the Swiss company Franck Muller International BV confirmed by Presidential Decree № 109, also on March 1,

2010. The price of the transaction was once again rather symbolic, having been about USD 12.4 million for a controlling stake of 52% of the shares. The remaining shares owned by the Belarusian State will be transferred to Franck Muller in trust management. Two years later, the investor will be allocated 23 hectares of land near Minsk to build a new plant. Despite the obvious and understated revenue from this sale, the Belarusian authorities are more transparent in this deal than in the Oman deal. The most valuable asset of a bankrupt plant (according to Presidential Decree № 24, signed on January 10, 2009, the company was nationalized for the debts to the budget and for the failure to sell the stocks of finished products that exceeded the average monthly production volume by 34 times) is the 12-storey building of the engineering corps of the plant. This is over 50 thousand square meters of office space, which may contribute around 10 million dollars a month at standard current rates once the office space is leased. The cost of the building is estimated at USD 150–200 million, and it will most likely become the property of the Presidential Business Office.

There are questions about the foreign investor involved in the transaction. Franck Muller is in dire financial straits, the company's tax arrears are roughly equivalent to its annual income. All business units are under compulsory audit, but its owner – Armenian businessman and multimillionaire Vartan Sirmakes – recently replaced all auditors. Thus, the deal looks like an attempt by Franck Muller to save part of the assets of the company from bankruptcy.

The only large privatization deal planned for the year, the privatization of Belinvestbank (valued at USD 700 million) to a major Western bank is at risk of collapse. Negotiations with the Unicredit bank have virtually been frozen. Germany's Commerzbank opted out of the deal last year.

In sum, the open and competitive privatization process declared by the government has been put on hold, whereas there is a dramatic acceleration of non-competitive non-transparent privatization of the non-market prices to murky investors, a process that can not even be called the "nomenklatura privatization".

Alexander Borovsky, former head of Belneftekhim who was convicted of abuse of power in early 2008 and granted a presidential pardon, was appointed on December 7, 2009, as Director-General of the *BelavtoMAZ* conglomerate. It was assumed that the valuable experience of crisis management would help the new director to stabilize the situation in one of the most important economic enterprises in the country (employing together with subcontractors about 100 thousand people). It was reported that "the President gave Alexander Borovsky carte blanche to bring order in all spheres of business; however, he was instructed not to lay off cadres but just to get rid of those with dirty hands".

In fact, MAZ is a model example, on which the anti-crisis microeconomic policy was supposed to be tested. It became apparent very soon that layoffs can not be avoided: 27 thousand employees produce about 25 thousand vehicles, and the ratio of engineers per worker is about 8 (the international ratio is up to 1 to 4). An anti-crisis management plan leaked to the press on February 21, 2010, which envisioned the lay-off of about five thousand employees, mostly engineers, reduction of working days at the plant (to 16–17 days per month), restructuring of the wage policy, and he gradual disposal of social provisions. Next day, however, the plant management denied the authenticity to the plan.

Thus, the fear of the political and social consequences of the layoffs continue to dominate the economic authorities in the conduct of anti-crisis policy. The economic logic in this case contradicts with the logic of politics. It is expected that the political will for decisive restructuring of enterprises will not appear in 2010.

Description of additional events

The second structural criterion of the IMF stand-by program for Belarus, the creation of the Agency for financial development, failed to be implemented by the Belarusian

government. It was assumed that the development agency would replace the banks in the financing of state programs and to take care of the long-term loans under the implementation of such programs. The IMF believes that the creation of this department will allow the National Bank of Belarus to stop refinancing banks at non-market terms. Chairman of the National Bank of Belarus Petr Prokopovich assured as late as on January 27, 2010, that such agency would be created within days. No documents have been signed until now, however. Creation and full functioning of the financial agency is a key element of the structural transformation of the economy. This is perhaps the only way to untangle the complicated system of cross-subsidization and budget transfers between sectors and enterprises, on the one hand; and to relieve the banks from the unusual non-market distributive functions that only increased troubled assets on their balance sheets, on the other. Strengthening the market orientation of the banking sector would increase the stability of the banking system and make credit more accessible to private businesses.

Without these measures, the vicious practice of government subsidies to loss-making branches will go on uninterrupted. Such practice is fully embedded in the Presidential Decree № 92 (dated by March 1, 2010, again) "On some issues of agricultural organizations". The decree offers agricultural enterprises a 10 year postponement of payments on debts accumulated by January 1, 2010. The decree envisages to reduce the amount of financial obligations of agricultural organizations by about 1.6 trillion Belarusian rubles (about USD 600 million), that are basically donated to state agricultural cooperation.

Nevertheless, the requirement of the IMF to reduce the funding of state programs is formally executed with a joint decree of the government and National Bank of № 352/3 dated by March 17, 2010. The program caps such financing in 2010 at 7.1 % of the previous years' level, including no more than 2.5% in the first quarter. On the basis of the approved resolution, lending to state programs in 2010 should not increase by more than BYR 2.2 trillion in 2010.

The banking system became a battle field of the power struggle of various interest groups. While Belarus partially fulfilled its promise of the IMF to provide the National Bank with financial and operational independence by eliminating the Board of Directors of the National Bank of Belarus, the National Bank is pressured by the Head of Presidential Administration of Belarus Vladimir Makey to "rejuvenate" its staff (i. e., fire the "veteran" servicemen and hire younger officials) by about 30 %. This campaign looks like an attempt to "tame" the most liberal and market-minded state body.

The program of economic liberalization for 2010 has not yet been adopted. The main obstacle is a draft decree on the reduction of licensed activities. Plans to abolish the licensing for 16 kinds of economic activity out of the currently licensed 53 kinds (and for 121 sub-kinds of activities out of 331) have been announced on February 19, 2010. The decree may be signed on July 1, 2010, however, there is a high probability that the draft will be sent for revision again, due to a large remaining number of licensed activities.

A half-hearted and cautious approach to price liberalization is demonstrated by the Presidential Decree № 127 signed on March 1 2010 (again). The abolished state regulation of prices in restaurants, cafes and bars price of the "first" and "de luxe" categories, which accounted for only 13% of the total number of catering establishments, and did not tackle the second category that accounts for the remainder of the market.

Description of events contrary to the trend

A Presidential Decree № 143 "On Certain Tax Matters" on March 9, 2010 repealed the limits on the expenditure on advertising, marketing, consulting and information services that can be attributed to the cost of production.

The same decree established that local councils of deputies, in order to ensure sufficient funds in local budgets, have “the right to increase (decrease) the rates of land tax, property taxes for certain categories of taxpayers by no more than two times” in 2010. The desire to replenish the budget at all costs obviously contradicts the stated goal of reducing the tax burden. Interestingly, the working group on simplification of the tax system led by Vice-Premier Andrei Kobyakov already suggested banning local councils from increasing land tax and property tax.

Brief forecast for the next quarter

The need for external financing from the IMF, which became particularly evident after the deterioration of the conditions of supply of Russian oil to Belarus, and the need to improve indicators of investment climate (such as Doing Business rating) will help to fulfill the requirements and recommendations of international financial institutions without any significant changes to existing practice of economic management and decision-making.

Brief forecast for the year

Structural changes in the economy and governance, except for simulative measures, are unlikely during the election year and under the mounting competition for administrative rents within the elite. The Belarusian economy is bound to be stuck in a pendulum between a more a “monetarist” policy and the pressure for the “controlled emission of money”. We predict that the pressure on the National Bank to reduce interest rates on loans to enterprises and to increase the financing of the real sector of the banking system will intensify (especially taking into account the exorbitant GDP growth of 11–13% that is officially projected for 2010).

As the government will fail to meet the main structural requirements of the IMF *stand-by* program, the prospects of a new program of assistance from the IMF seem to be elusive.

The privatization process will be more “polarized” during the year: a more or less authentic privatization with the participation of international consultants will be restricted to insignificant deals with medium-sized enterprises, whereas a “strange” *nomenklatura* privatization of large objects of state property will go on.

The liberalization of tax law will proceed depending on the state budget on the one hand, and the need to improve the position of Belarus in the ranking of Doing Business on the other. Apparently, these two trends will lead together to a superficial reform driven by the rationale to achieve a better position in the ranking, with effective preservation of the fiscal character of the tax system.

TREND 3

The quality of governance and the rule of law —

Assessment of the forecast given in the last issue of BISS Trends

Taking into account that there were no major changes in the internal and external economic situation in the first quarter of 2010, in particular the need for investment, the state continues to actively develop new elements of the reform package announced in 2009. No new important documents were signed, however, in the period under review. The only exception is Decree № 60 on the regulation of the Internet and Decree № 4, which made some changes to the current economic decrees. Laws on the support of small and medium enterprises, the reform of procedural law and others remain in draft form only.

Justification of a new trend (January-March 2010)

A limited liberalization continued in general in the first quarter of 2010. While centralized management and decision making continues to persist, proposals from interest groups, such as the views of business associations, are accommodated, though indirectly, in the decision making process. The structure of the institutions has not changed; however, the goal that was publicly announced by the president was to optimize it by the end of the year. The first quarter was marked by the demonstration of an active pursuit of further liberalization in the sphere of market regulation, infrastructure investment, and law enforcement. The structure of the judicial and law enforcement system has remained unchanged.

Description of key events that defined assessment of the trend

An illustrative event, highlighting the trend in the first quarter, was a speech by Deputy Minister of Economy Andrei Tur at the XI Assembly of business circles of Belarus, where a high official informed the business community and the media about the finalization of the draft plan of measures to liberalize the conditions for economic activities in 2010. We observe that the government listens carefully, actively develops and presents liberalization bills, but currently only a small number of them came into force.

Description of additional events

Activities of the Ministry of Justice, the Supreme Court and the Supreme Economic Court of Belarus, such as the development of projects to improve legislation and joint efforts to develop measures to improve law enforcement, may be indicative for future changes in the law enforcement environment. Government efforts to introduce an "electronic government" also testify about the drive to increase the investment attractiveness of the country. The electronic government will speed up and simplify the interaction of citizens and organizations with the State.

Description of events contrary to the trend and rationale for why they do not change the picture

From the perspective of this trend Decree № 60 on the regulation of the Internet can be viewed in two ways. On the one hand, it imposes on government agencies an obligation to publish information about their activities on-line, and seeks to protect the property rights of authors and holders of the rights on intellectual property, which indicates an improvement in governance. On the other hand, the decree limits the ability to conduct commerce with foreign information systems and resources, as well as provides for a compulsory registration of all on-line systems and resources in Belarus.

Brief forecast for the next quarter

In the second quarter of 2010 the development of liberalization initiatives, some of which will be implemented, will continue. By the end of the spring session, Parliament is expected to adopt specific legislation, in particular, the law on supporting small and medium businesses. The regulation of electronic documents will be improved, and rules for registration of Internet resources will be introduced.

Brief forecast for the entire year

On the eve of the presidential elections, the power vertical will be strengthened. Assuming the unchanged internal and external economic situation, the government will implement a "plan of liberalization", which stipulates, inter alia, the adoption of a new edition of the Investment Code and simplification of the tax payment procedures. Electronic documents will be used more actively alongside with the tightening of state control over means of communication and its contents.

TREND 4

Geopolitical orientation –

Assessment of the forecast given in the last issue of BISS Trends

The trend of a continuing geopolitical maneuvering between East and West described in the previous issue of BISS Trends largely continued in the first quarter of 2010, with the exception that Belarus' position vis-a-vis both "poles" worsened considerably.

Justification of a new trend (January-March 2010)

The deterioration of relations with the EU is manifested in the condemnation by the EU of actions of the Belarusian authorities against the unrecognized Union of Poles, as well as in the adoption of a highly critical resolution on Belarus by the European Parliament. The negative trend on the "Eastern Front" is reflected in the conflict with Russia concerning the conditions of supply of oil and petroleum products to Belarus.

Description of key events that defined assessment of the trend

The resumption of pressure on the authorities on the Union of Poles in Belarus (UPB) nearly disrupted the planned visit of the Minister of Foreign Affairs Sergey Martynov to Warsaw and prompted Poland to seek the support of the European Union. The unprovoked attack on the unofficial Union of Poles was likely meant to precipitate another split in the European Union on the Belarusian issue (in particular, by pushing Warsaw to advocate harsh sanctions, which would not be met with sympathy in the "old Europe"). However, the EU Council has reminded the official Minsk to adhere to its international obligations and to the resolutions of the European Parliament. A harsh resolution prompted the Belarusian Foreign Ministry to make a rather harsh statement in return. At the same time, the restrained reaction by President Lukashenko and the subsequent agreement to establish a bilateral commission for settling the situation around the Union of Poles have confirmed that the official Minsk left itself the possibility of maneuver in this matter. Perhaps the recognition of the independent union will be used by the end of the year to show further "progress" in meeting EU political conditions.

The Belarus-EU relations were further worsened by fundamental differences over the representation of Belarus in the *EURONEST* Parliamentary Assembly. The offer by the European parliament to split the country's representation between members of the National Assembly and representatives of democratic forces was sharply rejected by the Belarusian authorities. A compromise could not be reached during a visit of the delegation of the European Parliament to Minsk.

Tensions heightened in relations with Russia in spite of the completion of certain formalities connected with the formation of the Customs Union. Final Belarusian-Russian agreement on the conditions of supply of oil was clearly in favor of Moscow, which, despite the stubborn resistance of the Belarusian representatives, got almost everything that was originally set as its goal. Russia also managed to bring the issue of export duties out of consideration of the Customs Union, postponing the decision for two years that would presumably be spent for the creation of a single economic space. Belarus lost 0.3% of revenues from imports in the process of the allocation of duties as compared to the plans at the beginning of the year. Alexander Lukashenko failed to meet with Vladimir Putin, when he arrived in Belarus to attend the meeting of the Council of Ministers of the Union State. Finally, Minsk brought the oil dispute with Moscow to court, having sued Russia, on March 25, 2010, in the Supreme Economic Court of the CIS. This action by itself is rather a demonstrative step, given the insignificance of the institution: it is highly unlikely that "the case of the Russian oil" will be actually heard in the court, or, moreover, that the court would dare to pass a verdict against

Russia. The action should rather be considered as a demonstration by the Belarusian leadership of its independent status vis-a-vis Russia, which generally fits into the trend of sovereignization of the Belarus-Russia relations defined by BISS analysts long ago.

Description of additional events

In spite of the seemingly cordial relationship between Lukashenko and the new Ukrainian President Viktor Yanukovich, his election may actually complicate the ongoing dialogue with Kiev. It is hard to imagine that the new Ukrainian president will be as actively promoting the interests of Belarus in the international arena, as did his predecessor, which earned some kudos from the Belarusians. Moreover, it is possible that official Kiev will compete, from now on, with Minsk in the struggle for the favors of Moscow. At the same time, it is quite possible that the Belarusian authorities together with the Yanukovich administration will be able to solve some of the "long-lasting" issues hindering bilateral cooperation, in particular, the issue of delimitation of the border.

Travels by Lukashenko to Venezuela and Brazil, by Martynov to Iran, and a visit of the Vice-President of the People's Republic of China Xi Jinping to Minsk confirm the commitment of the Belarusian authorities to increase the number of solid economic partners and to find alternative sources of energy and credit. These politics are reasonable in principle, but can hardly make a big difference in the foreseeable future. In particular, it is unlikely that multi-billion investments promised by China to Belarus will materialize any time soon, as even the credit lines that are already open have not yet been exploited due to the banal lack of promising projects in which China would be interested to invest their money (for example, a three billion swap between Belarus and China endorsed more than two years ago, remains frozen). The agreement for the supply of Venezuelan oil to Belarus largely belongs to the category of PR. However, its implementation deserves serious attention. The purpose of Venezuelan oil supplies to Belarus is to "hack" a transit corridor for non-Russian crude oil to Belarusian refineries. If this happens, one can seriously talk about other than Russian investors for the privatization of these refineries. This, in turn, changes the picture in the whole region: in particular, completely new perspectives emerge from the pipeline Odessa–Brody.

Description of events that ran contrary to the trend but failed to affect the overall assessment

Martynov visited Poland after all and signed a long-awaited agreement on cross-border traffic. Another hint at detente of Belarusian-Polish relations was made at the meeting of Alexander Lukashenko with Minister of Foreign Affairs of Poland Radoslaw Sikorski in Kiev, where an agreement was reached to establish a joint expert group on the Polish minority. But the Belarusian side has delayed its implementation, so that by the end of the period under review, the situation remained in limbo. The Belarusian side agreed to interrogate General of the Belarusian army Valery Ushopchik over his role in the January 1991 massacre as a commander of the Soviet garrison in Vilnius. This marked a positive shift in relations with Vilnius. Alexander Lukashenko was invited to take part in celebrating the 20th anniversary of Lithuanian independence, but abstained from visiting and sent an invitation to President Dalia Grybauskaitė to visit Belarus instead.

Brief forecast for the next quarter

Local elections will not be recognized as free and fair in the West. The National Assembly will not be present at the *EURONEST*. This will not lead, however, to a break with the EU, although the Belarusian side will engage in tough talk over the unfriendly acts by the Union. So, there is no reason to talk about a radical turn for the worse in the relation with the EU, or, for that reason, of any change in the current relations.

As Russia abstained from any exuberant reaction to the demarches of the Belarusian government, it is likely that the status quo in relations with the Eastern neighbor will be preserved as well. Minsk will apparently have to settle with the new customs duties on oil, but will use every opportunity to recover some of the lost cash: either by trying to export duty-free gasoline from Russia in order to re-sell it abroad, or exclude from the customs union certain categories of goods (or example, foreign cars), where hikes in customs duties are extremely unpopular in Belarus.

Brief forecast for the entire year

The vast majority of foreign policy problems that exist between Belarus and the West are a consequence of the internal policies of the Belarusian leadership. If the Belarusian leadership perceives a threat to its power position before and especially during the presidential campaign, it will do everything to keep the situation under control, regardless of the consequences. If this is not the case, it will try not to exacerbate the problems for no reason. Brussels, on its side, does not consider radically changing its policy towards Belarus either. In our view, the stock of “trump cards” that was accumulated in the hands of the Belarusian authorities (new political prisoners, the Union of Poles, the question of the death penalty), will be gradually disposed of by the end of the year in an apparent show of continuing liberalization and in attempt to avoid new sanctions in the aftermath of the elections.

The relationship with Russia is being increasingly defined by the economic antagonism between Minsk and Moscow. However, there remains an enormous dependence of Belarus on Russia, due to which Minsk is unable to take any drastic steps. Therefore, maneuvering between Russia and Europe, with periodic but not irreversible deterioration of relations with both partners will remain the core of the foreign policy of the Belarusian authorities throughout the electoral period. New markets and credit lines will be actively sought in Third World countries, but Belarusian products exported to third countries. However, new foreign policy vectors will rather be complementary, and will not alter the overall geopolitical trend.

TREND 5

Cultural Policy: the ambivalence of trends in Belarusization and Europeanization ▲

Assessment of the forecast given in the last issue of BISS Trends

The first quarter of 2010 largely confirms the prediction in the previous issue of the BISS Trends, except for the assumption of a possible intensification of anti-Western and anti-European motifs in the cultural politics of official discourse, which, of course, does not negate the possibility of reverting to these motifs in the second and third quarters of 2010. The period under review is characterized in the field of cultural policy by the continuation of the trend of “relative” Belarusization and enhancing cultural contacts with the European states, which are dictated by the desire to minimize the potential social and cultural tensions in the Belarusian society as well as by the need to find a new cultural recipe to legitimize the expanding contacts with Western states and cultures, which were considered alien to the values of the local cultural space in the pre-crisis period.

Justification of a new trend (January-March 2010)

The period of January – March 2010 has witnessed intensification of cultural relations with European countries, which contribute to a rather distinct strengthening of the trend of Europeanization in the cultural policy. During this period, the Minister of culture Pavel Latushko

hat a number of meetings with the Ministers of Culture of Lithuania, Poland, representatives of diplomatic services of France, Italy, Czech Republic, and Slovakia. In January, he signed an intergovernmental agreement on cooperation in culture, science and education between Belarus and France. It is expected that in the coming weeks a cooperation program will be signed between the Ministries of Culture of Belarus and Ukraine. Soon an intergovernmental agreement in the field of culture will be signed between Belarus and Italy. The Belarusian government started negotiations on signing an agreement in the cultural sphere with Greece. The program of cultural cooperation between the Ministry of Culture of the Republic of Belarus and the Ministry of Culture of the Republic of Lithuania was approved for 2010–2011. It foresees translation of modern Belarusian literature to the Lithuanian language and the organization of culture days of Belarus in Lithuania.

Belarus also intends to participate in the “*Kiev Initiative*” program, organized by the Council of Europe. All this indicates an increase in pro-European tendencies in the formal cultural discourse, but it seems premature to conclude that a radical reassessment of values is taking place. It should be rather be considered as a compensation for the stalled political liberalization: shifts in the cultural policy do not cause serious perturbations that could pose a threat to the power balance in the country, yet they allow to launch speculations about liberalization, democratization and the European orientation of Belarus. This tactics also helps, to a certain extent, to eliminate the growing social tensions and potential conflicts between the government and civil society.

Thus, the first quarter of 2010 is characterized by positive dynamics in the two major trends of “partial” Belarusization and “cautious” Europeanization, which are at the forefront of the cultural policy of the Belarusian authorities seeking to obtain new political mileage by exploiting the incorporation of national and European elements in the cultural space of Belarus. Meanwhile, both of the trends are far from being commanding and irreversible, as there is no talk about the complete rejection of traditional myths about the Soviet past imbuing social consciousness through the media and other channels of communication. It should be noted as well that civil society had a rather weak response to these trends.

Description of the key events that defined assessment of the trend

The trend of a relative rehabilitation of the Belarusian language was best illustrated by the celebration of International Mother Language Day initiated by the first national television channel. The Belarusian Language Society also conducts events for the Mother Language Day in a concerted action for civil society and the officialdom (BISS trends, actually observed such actions already happening in the previous period). Recognizing the positive fact of the popularization of the Belarusian language in this campaign, one should not overlook that it was carried out at a very limited extent: the campaign in the state media was rather sporadic and inconsequential. In a similar fashion, the initiative of the Mahileu Regional Executive Committee to declare 2010 as year of the native language was not supported, and forfeited for a largely empty concept of “the year of quality”.

Description of additional events

The campaign “Belarus R'US” launched by the Ministry of Culture should be seen in the context of restrained Belarusization. This campaign implies a degree of correction of the cultural image of Belarus by incorporating elements of national culture, with the target audience defined as widely as possible, and the activities planned in and outside Belarus. Moreover, the campaign will strive to increase loyalty to the official discourse among immigrants through the opportunity to take part in various events. However, there is reason to believe that this campaign will effectively be a “shadow” campaign to support an official candidate in the upcoming presidential elections.

The trend of “rooting” the national identity in the remote historical past continued in the first quarter of 2010 and was expressed, for example, by official preparations for a joint celebration with Lithuania and Poland of the 600th anniversary of the Battle of Grunwald. This trend is also complemented by the efforts to legitimize poets and writers who were previous undesirable for the regime, as was the case with the exhibition that is organized by the Ministry of Culture to honor Vasil Bykov. However, the name and the work of the writer were to some extent devalued as the exhibition was only limited to the “Soviet” period of the writer’s work. The exhibition itself is part of the large array of activities to commemorate the 65th anniversary of the victory in World War II, as the government constantly updates traditional mythology of the Great Victory and the liberation.

The appeal to the legacy of Vladimir Karatkevich, whose works return from oblivion in the year of the 80-year anniversary of the birth of the classic of Belarusian literature, also demonstrates an increasingly complex official discourse on culture and identity. The Ministry of Culture is planning various activities to commemorate the writer.

A trend of partial liberalization and the cultural “truce” between the government and civil society is demonstrated by the adequate reaction of the Ministry of Culture, to the complaints from the Belarusian Public Council on Morality and its head Mikalai Charhinets who wanted to ban the concert of the German rock band *Rammstein* in Minsk. The Ministry of Culture declined to honor the request even though the Council is widely seen as a mouthpiece of the official propaganda.

Description of events that ran contrary to the trend but failed to affect the overall assessment

Cultural products and strategies emphasizing the “Soviet” origins of the cultural space of Belarus have been largely latent in the reporting period; however, one can not talk about their extinction, as the official ideology still postulates the paramount importance of civil patriotic education of the Belarusian youth. This education results in a sacralization of the military liberation themes through a series of different campaigns titled like “A sacred fire of the great victory unites young people of Belarus”. In another development, Andrew Gerashchenko (Head of the Department of Youth Authority of the October district of Vitebsk) made a public statement about the artificial nature of the Belarusian language and its redundancy for the Belarusian society, and even about the “harassment” of the Russians in Belarus, thereby implicitly criticizing the new trends in the official discourse. The Gerashchenko affair exposes a certain degree of overlap and distance in the field of cultural policy center (Minsk) and periphery (in this case, Vitebsk), and also suggests that Russia may enhance its pressure on Belarus through various channels if Belarusization continues to progress.

Brief forecast for the next quarter

We expect in the short run that the current trend of cautious Belarusization and Europeanization will be maintained by the Belarusian authorities, though two official holidays (May 9 and July 3) will definitely enhance the “Soviet” tunes in the public discourse for the season.

Brief forecast for the entire year

Exploitation of the national symbols may have a distinctly instrumentalist character afterwards, as it may be used to acquire political dividends by opposition actors who traditionally defined their political stances according to national value schemes. This tactics will once again weaken the opposition in the elections. At the same time, we expect in the long-run the same degree of initiative for the official discourse in the local space of the Belarusian culture, as it will be directed to maintain the loyalty of civil society under conditions of increased

censorship and the roll-back of liberalization in the political sphere. We also predict new instances of Russian “cultural resistance” to the changing identity politics in Belarus, especially in the context of the presidential elections.



3 April – June 2010

EXECUTIVE SUMMARY

The second quarter of 2010 stands out as a highly interesting episode in Belarusian history.

The **political sphere** saw simultaneous de-liberalization and de-democratization. The de-liberalization was made manifest in restrictions on the freedom of expression and sanctions against the Tell the Truth civil initiative. Although it had more possibilities for campaigning and nominating its representatives to election commissions, the opposition did not get any chance to influence the election process. In most cases vote count was just as non-transparent as it had been before and the election was in general totally controlled by executive authorities. The amendments to the election legislation did not result in democratization of political life.

In the **field of economic policy**, the government continued taking nominal steps to reform the economic environment towards its liberalization, at the same time reserving possibilities of keeping the economy under state control, especially in the sphere of privatization and investment. However, in the second quarter the President publicly announced his intention to issue a special directive on liberalization, which should facilitate systematization of the reforms. Since such directives form the main state discourse for an annual period, next year may be marked by the sign of liberalization, which could contribute to changing thinking patterns of officials and state figures on all levels, as well as moving on to more significant and profound liberal reforms.

The trend of the second quarter of 2010 in the **field of the rule of law** can be described as ‘minimal regression’. There were no significant events, as the public statements of the country’s leadership do not qualify as such. Against this background the Council of Ministers passed its resolutions on regulating the Belarusian segment of the Internet. At the same time, it should be noted that state institutions continue taking into consideration proposals of different stakeholders in lawmaking, for example, opinions of business associations on legislation related to the economy. On the whole, like the first quarter, the second one was marked by imitating active development of further steps towards liberalization, exemplified by the resounding title of Directive № 4.

In the **geopolitical sphere**, in the second quarter of 2010 Russia dramatically increased its pressure on Belarus in order to make it join the Customs Union with Russia and Kazakhstan, as well as consolidate Russian political and economic hegemony over Belarus in the longer term. Although Belarus took a hard line on the Customs Union, standing up for its interests at the negotiations, and openly clashed with Russia in the new gas war in June, clandestine ratification of the Customs Union Code on June 30, 2010 clearly shaped a pro-Russian trend in the trajectory of foreign politics. The second quarter also made it evident that the Kremlin

has its own political plans for the 2010 or 2011 presidential election, which is targeted against Alexander Lukashenko personally.

TREND 1

Political Liberalization and Democratization ▼

Assessment of the forecast given in the last issue of BISS Trends

The forecast given in the previous issues of monitoring concerning political democratization has generally proved to be correct. During local elections, the number of opposition party members elected to local councils decreased, making now fewer than 10 opposition deputies around the whole country, i. e. the opposition was able to get less than 0.1% of 21,293 seats. Although it had more possibilities for campaigning and nominating its representatives to election commissions, the opposition did not get any chance to influence the election process. In most cases vote count was just as non-transparent as it had been before and the election was in general totally controlled by executive authorities. The amendments to the election legislation did not result in democratization of political life.

In the area of political liberalization the trends outlined in the previous period have also proved correct. During the election campaign, instances of opposition candidates and opposition election board members being pressurized were steadily growing, the pressure taking in most cases an unofficial form of threats at work or educational institutions. When the election was over, some of the threats were actually carried out, but further on instances of pressure decreased. So did the basic figures of politically motivated administrative persecution. According to the “*Viasna*” Human Rights Center database, April and May saw two administrative arrests, whereas in the preceding two-month period of February and March they were five. There were 98 cases of other forms of administrative persecution, while in February and March they made 129. There were no instances of mass protests being forcefully put down, with the exception of a bicycle race banned in Minsk on May 27. However, the law enforcement bodies have reintroduced the practice of deliberately false charges of petty hooliganism brought against opposition activists and corroborated by policemen’s statements only. At the same time the regime has evidently started preparing the legal ground for the upcoming presidential election, drawing up and adopting presidential directions to regulate the use of the Internet. The repression apparatus is also getting ready for the forthcoming presidential election, courts having given verdicts on all-important ‘symbolic’ cases the opposition perceives as politically motivated, such as Autochovic’s group and Kavalenka’s cases. Secret services have carried out a large-scale operation to destroy the infrastructure of the *Tell the Truth* public initiative. By the way, by certain signs the Tell the Truth campaign could be identified as Russia’s scenario at the forthcoming presidential election.

Justification of a new trend (April-June 2010)

On the whole considering the situation described above, which further develops the outlined trends, it can be argued that at the present moment political life in Belarus is marked by preparation for the upcoming presidential election. Since the definite voting date has not yet been made public, the authorities are preparing for it in fact latently, without openly declaring the start of the campaign. The Head of State is probably the only official to have publicly state that preparation for the presidential election is underway. The forthcoming event determines all the other office holders’ actions ‘by default’, for example, the target figure of USD 500 average wages and salaries nationwide to be met by the end of the year, or the next All-Belarusian National Assembly is not formally linked to any election date. This, however, does

not make it less obvious that the state propaganda machine is working towards providing ideological coverage of the approaching election. Meanwhile, repressive institutions are not yet functioning as actively as they are likely to during the campaign proper. What we see now is rather haphazard preventive measures, as was the case with trampling on the *Tell the Truth* initiative. It should be mentioned that the scale of repression against it could not match the level of "bloodthirstiness" demonstrated by the authorities when the *Partnership* initiative was being crushed before the 2006 presidential election. By putting three activists of *Tell the Truth* campaign behind bars and quickly releasing them, the regime showed that it was not going to burn its bridges by restricting itself exclusively to a violent scenario during the forthcoming election. The tendency is also borne out by the authorities' attempts to apply 'soft' political technologies in combating their opponents.

For example, the government is trying to cut the ground from under the feet of the *Tell the Truth* campaign by offering solutions to some issues it raised. Thus, the Council of Ministers adopted a resolution on checking the mechanism of working on popular feedback, and Harodnia city council decided to name one of the streets after Vasil Bykau. However, for all its 'softness', the regime has initiated liquidation of the *Movement Forward*, under whose auspices the *Tell the Truth* campaign is being held.

In the big political season the end of spring and summer of 2010 is virtually an interval between two major domestic campaigns, when main events are taking place on the international frontline, while inner political events are characterized by the system being prepared for the presidential election. In the areas of political democratization and political liberalization we can witness trends that could be described as minimal regression. Yet, the trends differ in their nature. The regression in the area of democratization is connected with failed optimistic expectations that were attached to the amendments to the Election Code, whereas in the sphere of liberalization we are facing a predictable preventive "freezing" of the situation before the forthcoming presidential election.

Description the key events that defined the assessment of the trend

The local elections of April 26 gave the government a good chance to demonstrate positive change in election processes. However, the target was not actually met, the opposition representation in local councils remaining meager and the record numbers of voting before the voting day, which made up 29.3% of the total vote, causing serious doubts about the fairness of the elections. Thus, we cannot attach any hopes on the amended election legislation to have a positive impact on the forthcoming presidential election. Moreover, increased control of the Internet threatens to restrict freedom of expression in this sphere during the election campaign.

Other Events

- The infrastructure of the *Tell the Truth* initiative was destroyed, its three frontmen were detained and criminal proceedings were initiated against them. (In three days' time the detainees were released.) The authorities initiated court proceedings to annul registration of the *Movement Forward*, which was the legal operator of the *Tell the Truth* campaign.

- The President set tasks to form an organizational committee to hold the 4th All-Belarusian National Assembly. Head of the Presidential Administration Vladimir Makey and Prime Minister Sergey Sidorski were appointed its co-chairmen. The organizational committee is to draft its proposals on the date of the Assembly, the number of its participants, as well as a project of the guidelines of the country's social and economic development for 2011–2015 by July 1.

- Registration of new NGOs has in fact been suspended.

Events Contradicting the Trend and Why They Do Not Change the General Picture

The Public Consulting Council with the Presidential Administration held its meeting after a long break, which, however, did not become a significant event in the country's social and political life. Now that Belarus is approaching another presidential election, all political events are being assessed from this perspective, those having no immediate connection to the election losing their significance in the eyes of society and often becoming unjustly marginalized.

Brief Forecast for the Coming Quarter

A certain calm in the country's social and political life is seasonal. The slack political season of July – August 2010 will turn out to be the lull before the storm of an active phase of the presidential campaign. An extraordinary session of the Chamber of Representatives of the National Assembly has been scheduled for September 7, 2010. In all probability, the date of the presidential election will be announced there. The election is most likely to take place on December 12 or 19, 2010. This will signify a starting point for all political activities related to the election.

Brief Forecast for the Year

Based on the events and trends of the first six months of 2010, it can be predicted that the forthcoming presidential election in Belarus will be held in line with the general practices tried out during the previous elections. There may be occasional diversions from the typical scenario towards avoiding the hardest and most flagrant forms of political repression, though in general the repressive and restrictive nature of the election will remain unchanged. We expect the government to try and justify repressive actions partially by “struggling for independence” in the light of the recent clashes between the Belarusian leadership and the Kremlin. Although the task of guaranteeing international recognition of the election result has become more complicated, it has not changed the conventional approach towards holding elections at the domestic level.

TREND 2

Economic Liberalization —▲

Assessment of the forecast given in the last issue of BISS Trends

In the second quarter of 2010 the government adhered to the same economic policies as they had been implementing in the first quarter. Just as we had predicted, the government went on taking nominal steps to reform the economic environment towards liberalization, at the same time reserving possibilities of keeping the economy under state control, especially in the sphere of privatization and investment. However, in the second quarter the President publicly announced his intention to issue a special directive on liberalization, which should facilitate systematization of the reforms. Since such directives form the main state discourse for an annual period, next year may be marked by the sign of liberalization, which could contribute to changing thinking patterns of officials and state figures on all levels, as well as moving on to more significant and profound liberal reforms.

Justification of a New Trend (April-June 2010)

The last quarter was marked by a rather rapid change of events related to the economy in the political sphere. Belarus was solving some fundamental problems, which are of vital importance for the country, such as oil and natural gas supplies and their prices, the terms of

creating the Customs Union, privatization of state property and economic liberalization. Solutions to the problems lay at the junction of politics and economy, stirring active debate on the international level. Belarus attempted to defend its positions in international economic issues, using a wide range of corresponding tools. It succeeded at least in bringing its interests in the focus of attention and reserving a chance to pursue them in the future. In the area of economic liberalization, privatization and investment Belarus was still trying to find an equilibrium between national interests (or those of certain groups, for that matter) and short-term solutions to macroeconomic problems.

Assessment of the forecast given in the last issue of BISS Trends

Privatization and Investment

In June, Parliament passed the second drafts of two pieces of legislation on privatization in Belarus, namely On Projects Constituting Exclusive State Property and Activities That Can Be Exercised by the State Exclusively and On Privatization of State Property and Reorganizing Unitary State Enterprises into Joint-Stock Companies. The former is unprecedented insofar as it allows selling enterprises of strategic importance. According to the draft law, enterprises mining and processing potash (i. e. *Belaruskali* State Unitary Enterprise) and oil mains are to be excluded from the list of enterprises constituting state property only. Concerning privatization of the oil mains, Alexander Lukashenko declared in the past that Belarus was potentially prepared to increase the share of Russian *Gazprom* in *Beltransgaz* joint-stock company, so that *Gazprom* would have a controlling stake. But only recently officials have begun discussing the possibility of selling a share in *Belaruskali*. At present they are talking of a possible sale of a 20 per cent minority share to a Chinese investor. Even though privatization policies have been considerably loosened, the lawmakers have reserved mechanisms to control the industry. According to the draft law, in privatization of potash extracting assets the state maintains its exclusive right to sell potash on the international market. For the piece of legislation to be brought into action, it has to be signed by the President, which may happen in the nearest future.

The law On Privatization of State Property and Reorganizing Unitary State Enterprises into Joint-Stock Companies, in its turn, should substitute for the Law № 2103-XII on Privatization of State Property of January 19, 1993. The new law makes compensatory basis the guiding principle of privatization. Selling shares of joint-stock companies reorganized from state unitary enterprises to their employees at 20 per cent below the nominal price is to be over by January 1, 2014.

According to the new piece of legislation, privatization will mainly be carried out through selling shares or enterprises as property complexes at auctions (by bidding), as well as through selling shares of unprofitable enterprises on the basis of trust management. Other methods of privatization, its procedures, terms and conditions can be established by the President. He enjoys virtually unlimited authority in managing state property. This reservation may make potential investors more cautious, resulting in a negative impact in the country's investment climate. The attempts to liberalize the investment climate could be caused by the need to cover the current payment deficit, ensure long-term loans or enter foreign markets (for potash, for example) or their underlying reason could be a desire to have an opportunity to buy natural resources at bargain prices, as is the case with selling oil pipelines. Still, the adopted measures once again turn out to be partial only, providing for state control over privatized industries. Such limited steps may not be enough to solve the problem of structural imbalances in the Belarusian economy, offering a short-term solution to certain macroeconomic problems, which is not a long-term strategy.

Late in May the Council of Ministers passed its resolution № 749, which extended circulation of the 'Property' vouchers from July 1 till 30 June 2013. (Their expiry date had

been set for June 30, 2010.) It is the seventh time their circulation has been extended since the late 1990s. The government cited exceedingly high costs of compensation for unused vouchers, making up about BYR 80bn (USD 27 m), as the reason for such a step. “At present, considering a number of international and domestic factors”, said Director of the State Property Fund of the State Property Committee Zhernosek, “the state cannot accept liabilities for unused vouchers, though there is a provision for such a procedure in the current legislation”. In 2007 some state institutions, such as the State Property Committee, the Ministry of Economy, etc. came up with a proposal to stop voucher privatization on a non-compensatory basis by annulling unused vouchers. A draft law with the proposal was even submitted to Parliament, but in the end the government decided against such a step. There are an estimated 2 m voucher holders in Belarus.

Another privatization and investment related event in the country was the establishment of the National Agency for Investment and Privatization on Presidential Decree № 273 of May 25. The decree determines the mechanism of setting up the National Agency for Investment and Privatization through reorganizing the National Investment Agency State Unitary Enterprise. Changes will concern the management structure of the agency, which is to be subordinated to the Council of Ministers. The agency’s work is to be controlled and coordinated by a supervisory board with the Prime Minister at its head. The institution’s high status and large numbers of high-standing officials working for it should indeed have a positive impact on decision-making in the field of investment. However, experts point out that having no authority to manage state property, the agency is going to deal with investment rather than privatization. According to the current legislation, decisions on selling state property worth more than 10,000 basic units (USD 117,000) can only be taken upon the President’s approval. In many aspects the agency may have been established in order to meet formally the requirements of international institutions rather than deal with the actual problems in the field of privatization and investment.

At the same time, the World Bank severely criticized the way privatization in Belarus is being carried out, stating that the country had no delineated privatization strategy, which did not lead to any transformation of the economy. Singular cases of selling state property cannot result in any significant changes in the structure of the economy. The World Bank stressed that it did not consider massive privatization East European style necessary or right, selective (or pinpoint) privatization being viewed as more efficient. However, even this process is slack in Belarus. Moreover, the World Bank representatives stated that being only a tool of economic transformation, privatization should stimulate reforms in different sectors of the economy. Meanwhile, Belarusian privatization practices look like nothing more than an attempt to fill the gaps in the budget. Belarusian privatization policy adheres to its priorities, such as preservation of strategic assets, minimizing negative social effects and covering the budget deficit. These are recognized by government officials themselves, whereas efficient management by new owners is not on the agenda.

IMF Mission

The IMF mission visited Minsk once again from May 12 to May 25, assessing the current economic situation and prospects for further cooperation. The mission is also planning to come back early in the autumn to continue their dialog with the government. The objective of the visits is to present the Government the IMF’s conclusions whether Belarus needs a new program of cooperation with the IMF. According to the mission representatives, if the Government and the National Bank are interested in a new cooperation program, the IMF is ready to develop one, “which will include well thought-out measures in economic policy”. At the same time, in his interview to the Reuters early in May Alexander Lukashenko said that with the economy recovering, Belarus was not going to ask the IMF for new loans but would

rely on IMF experts' consulting in the field of economic policies. The IMF pointed out that Belarus needed structural reforms and productivity growth, while economic growth that was attributed to increased borrowing would only put more pressure on the balance of payments and reserves. The IMF also emphasized the importance of increasing the contribution of the private sector to the country's economic growth. By EBRD estimates, the share of the private sector in Belarusian GDP does not exceed 30%, while the figure is significantly higher in all the other countries of the region and a wider group of transitional economies.

Eurobonds

In May the President signed his Decree № 245, which authorized the Government to issue up to USD 2 bn in Eurobonds in 2010–2011. The decree also appointed institutions to place the sovereign bonds, namely *BNP Paribas*, *Deutsche Bank AG*, the *Royal Bank of Scotland plc.* and the *Savings Bank* of Russia. The fact that the Government is prepared to enter the European market for the purpose of foreign borrowing might improve the country's image and have a positive impact on Belarusian corporate borrowers' opportunities to enter this market. This could create a precedent for future borrowers, potentially stimulate market share and raise companies' competence in dealing with stocks and bonds. In terms of the price of borrowing on the European market, it could turn out quite expensive as compared to the IMF loans, particularly if we remember that the latter declared it was prepared for a new cooperation program on condition that Belarus indulged in structural reforms. Still, now is quite a favorable time for the Belarusian Government to enter the Eurobond market, as the basic interest rates on such bonds remain quite low on the world market. Lack of credit history on the Eurobond market could drive up the price of such borrowings for Belarus. The projected emission of Belarusian Eurobonds makes up about USD 1 bn for this year, which is quite a lot for the first step.

In all probability, the Government is forced to take these measures in order to fill the gaps in the balance of payments, balance the budget and ensure the growth of investment in 2010. Another motive may be the Government's reluctance to depend totally on the requirements of institutional lenders like the IMF and its willingness to maintain room for maneuver in its policies. It could be a matter of priority for the Government to ensure economic growth at the present moment rather than take on any obligations concerning long-term structural reforms.

Customs Union and Gas and Oil Clash

Although the date at which the agreement on the customs union between Russia, Kazakhstan and Belarus comes into force is drawing near, the parties still have not settled their differences. The crucial one is the fact that duties on oil and petrochemicals are not going to be cancelled. By conventional definition, a customs union is an agreement between two or more states on canceling customs duties in their mutual trade. For this reason, Belarus was not happy with Russia introducing customs duties on oil and petrochemicals for an indefinite period even according to the new Customs Code within the customs union framework.

The conflict between Belarus and Russia is unprecedented in the history of the two countries' mutual relations. It is the first time that one of the parties has resorted to judicial methods. On March 25 the Belarusian Ministry for Justice filed a lawsuit with the CIS Economic Court questioning the legitimacy of export duties on petrochemicals and petrochemical raw materials supplied to Belarus from Russia. The Ministry for Justice emphasized in its press release that international agreements within the framework of the CIS and EurAsEC, as well as bilateral agreements between Belarus and Russia "provide for duty-free trade within the free trade regime". "The only exception from the duty-free regime is crude oil, which is liable to export duty according to a special bilateral agreement", said the Belarusian Ministry for Justice. "All other products should be traded on a duty-free basis". So far, the court has not given its

ruling and there is a possibility that the hearings may be so long-drawn-out that any decision will have become pointless by the time they are finished. According to Russian Prime Minister Putin, Russia takes into consideration the remaining differences concerning export duties on crude oil and petrochemicals. Yet, in his opinion, the issue lies within the competence of the Unified Economic Space, which is supposed to have been established by 2012. Consequently, the issue of duties on oil and petrochemicals is not related to the Customs Union. According to Putin, oil and petrochemicals will not be dutiable for the countries belonging to the Customs Union when the agreement on the Unified Economic Space is ratified.

Another difference on the threshold of signing the agreement on the Customs Union concerns import duties on automobiles from countries that do not belong to the customs union. Although the problem was raised as early as last year, there is still no clarity about its solution. In April Vice Chairman of the Belarusian State Customs Committee (SCC) S. Borisyyuk announced that Belarus intended to uphold the existing import duties on automobiles, which are lower than in the other countries of the Customs Union. This does not make Russia happy, since the lower duties in Belarus within the joint customs territory could entail an inflow of cheaper used cars, whereas Russia has to support its automobile industry. On the other hand, if foreign autos fill the Belarusian market, Russia will also suffer losses due to a fall in sales of Russian automobiles in Belarus.

On the threshold of signing the Customs Union documents, Belarus and Russia had another clash, this time about natural gas prices and its transit via Belarus. In June Russia announced that Belarus owed it about USD 200 m for natural gas that had been supplied since the beginning of 2010. Receiving no payment, Russia threatened to cut its natural gas supplies to Belarus. Yet, an unexpected castling followed soon enough, Belarus claiming that Russia owed it a commensurate amount of about \$260m for the transit of natural gas to Europe. After Russian *Gazprom* cut natural gas supplies to Belarus to 60% of the planned amount, on June 23 Belarus paid back its USD 187 m debt to *Gazprom*, at the same time giving Russia an ultimatum that it should pay for the transit the next day. Russia, in its turn, paid back its debt, thus putting an end to the conflict. However, there is no clarity about the situation, as the counter claims could have been settled quietly behind the scenes, without drawing public attention to the conflict or getting engaged in a political battle. Many analysts believe that Russia began waging the gas war as an instrument of pressure on Belarus in order to force it to sign the Customs Union documents. It should be mentioned that the new customs code for the most part is based on the existing Customs Code of Russia.

Although Belarus had its objections to a number of issues in the new Customs Code, Russia and Kazakhstan decided to sign all the Customs Union documents between themselves instead of waiting for Belarus. So on July 1 the unified Customs Code was brought into action just as planned in Russia and Kazakhstan. However, the two countries kept the door open for Belarus, giving it time to “think it over” and join them. The Customs Union presupposes the existing import duties on automobiles for Belarus, though it has been emphasized that these are only to be applicable during a transition period, with further unification of the duties. On this issue Belarus has succeeded in bargaining for the terms it finds acceptable, even though for a limited period. The duties on oil and petrochemicals have been preserved. As a result, Belarus signed the Customs Union documents and joined the Customs Union on July 6.

The parties have reached an agreement on the terms of importing products for individual use to the territory of the Customs Union. They have become more liberal for Belarusian citizens on some items and less liberal on others. In addition, the moment the Customs Union was came into force, so was an agreement on introducing unified rules on technical regulation, sanitary, veterinary and phytosanitary control, which should facilitate trade between the countries that belong to the Customs Union.

Thus, it was mainly political pressure rather than economic reasoning that determined decision-making on the Customs Union. In many aspects the procedure of signing the documents remained covert, so at present it is difficult to assess its implications for the Belarusian economy.

Directive № 4 on Liberalization

The country continued discussing the need for liberalization of the economy. Since economic liberalization in the country is also a product of top-down movement, the President's statements in his traditional state of the nation address to the people and the parliament on April 20 mattered a lot for the liberalization process. The main economy-related subjects of his speech were about:

- the need to further liberalize the economy;
- dramatically simplifying taxation;
- ensuring stable rules for doing business.

According to Alexander Lukashenko, the national economy needs a 'breakthrough', which could be provided by a new technological strategy. Its components include:

- 1) structural transformation of the economy, which presuppose domination of industries that make products with high surplus value;
- 2) setting up high-tech industries that can offer the world essentially new goods and services;
- 3) creating market-based incentives in order to increase innovative activity of all businesses;
- 4) working out a strategy of business activity that promotes competition instead of monopolies. It should be mentioned that the government has already aired its intention to liberalize the economy for several years without making any real progress in improving the business climate or de-monopolizing the economy.

In his address the President announced his intention to sign Directive № 4 on Further Liberalization, aimed at giving more freedom to economic activity. Thus, the last two months have been marked by government officials' increased activity towards working out this document or creating the false impression that its preparation has been underway. According to Deputy Minister of Economy A. Tur, a draft directive on liberalization has already been drawn up and is currently undergoing an approval procedure at state institutions. Yet, there has been no information so far either on its form or contents. Early June saw the first meeting of the Public Consulting Council with the Presidential Administration after a long break. Its agenda included discussing the project of Directive No. 4, but its text was not submitted to the members. However, there is still hope that the fact that liberalization was initiated by the President will give state officials an incentive to work more actively towards improving the business environment. At the same time, there are reservations that steps towards liberalization may once again be only nominal and partial, aimed at raising the country's Doing Business rating rather than implementing real reforms.

Draft Law on Supporting SMEs

In May the Chamber of Representatives of the National Assembly passed a draft law On Supporting Small and Medium Enterprises, which, however, has not yet been signed by the President. The draft law has at last given definitions to such notions as small and medium enterprises, as well as infrastructure to support small and medium enterprises. Small businesses are defined as individual entrepreneurs, micro-organizations with average staff numbers of up to 15 and small organizations with average staff numbers of 16 to 100. Medium enterprises are defined as commercial organizations with average annual staff numbers of 101 to 250. This will help bring order into the policy of supporting SMEs, adjusting it to international practices.

The draft law also covers such issues as respect to rights and interests of SMEs and infrastructure supporting SMEs. It prohibits interference in their work. One of the major achievements of this piece of legislation is that it provides for a possibility of a simplified procedure of transferring state property to SMEs and selling state property on a three years' installment basis. In addition, the draft law establishes the details of SMEs participating in state purchase procedures, reserving at least 10% of overall state purchases for SMEs. These steps might raise the significance of private businesses for the Belarusian economy.

Amendments to the Code of Administrative Offenses

In June the Chamber of Representatives of the National Assembly adopted the second draft of the Law on Amendments to the Code of Administrative Offenses of the Republic of Belarus and Procedural Code of Administrative Offenses of the Republic of Belarus. The draft law is aimed at bringing down certain barriers to improving the country's business climate. A number of its provisions adjust the Administrative Code to presidential decrees and other pieces of legislation. The draft law is meant to ease the pressure of possible administrative punishment, making it commensurate with the offense, to issue warnings on a larger scale rather than impose more severe punishments, and to reduce fines for economic offenses for such categories as individual entrepreneurs and private individuals.

Thus, the second quarter saw quite a lot of events related to the fundamentals of the country's economy. Belarus signed the Agreement of the Customs Union with Kazakhstan and Russia, but it is difficult to estimate its implications for lack of information. The country leadership also announced its intentions to liberalize the economy and adopted documents aimed at creating more opportunities for investment and privatization. Nevertheless, the economic reforms in the country are as pinpointed and cautious as they have been before, always leaving the government a right to veto in case it loses control over the economy.

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Brief Forecast for Next Quarter

The next quarter is likely to be characterized by 'adjustment' of the Customs Union mechanisms. Perhaps we will see the first assessments whether its terms and conditions are beneficial for the Belarusian economy. There may be a number of documents adopted that are supposed to give structure to the government's intentions to liberalize the economy. These

might inspire some interest among potential foreign investors, at least encouraging them to get a better idea of the Belarusian business environment.

Brief Forecast for 2010

Any significant structural transformations in the economy are unlikely to happen. The government will go on trying to strike a balance between preserving the existing structure of the economy and solving the most pressing macroeconomic problems, among other things by creating a false impression of liberalization or carrying out haphazard reforms in this direction. Considering the high target figures for GDP growth (11–13%), it is expected that banking will come under pressure to reduce interest on loans and increase financing of the real economy. Cooperation with the IMF could be possible if the Belarusian government demonstrates its political will to engage in such cooperation. In the short term the government will seek alternative sources of subsidizing the economy.

We do not expect any significant breakthrough in the privatization processes. It will go on according to two established patterns, namely open privatization of minor and strategically unimportant enterprises with the assistance of international consultants on the one hand, and nomenclature privatization of big state enterprises under control of the government or particular groups.

In the light of the President's intention to issue a directive on liberalization, perhaps some further steps will be made towards liberalizing the economy. At least we should expect some additional measures aimed at simplifying taxation, licensing and the system of wages and salaries in order to raise the country's Doing Business rating.

TREND 3

Government Quality and Rule of Law —▼

Assessment of the forecast given in the last issue of BISS Trends

'Working out liberalization initiatives' predicted in the last BISS Trends continued in the second quarter, however, no legislation in this field was passed. The law on support for SMEs has not been signed by the President yet and work on a decree on licensing is 'virtually finished'. Just as we expected, the government approved tough regulation of the Internet.

Justification of a new trend (April-June 2010)

The trend of the second quarter of 2010 can be described as 'minimal regression'. There were no significant events, as the country leadership's public declarations do not qualify as such. Against this background the Council of Ministers passed its resolutions on regulating the Belarusian segment of the Internet. At the same time, it should be noted that state institutions continue taking into consideration proposals of different stakeholders in lawmaking, for example, opinions of business associations on economy-related legislation. On the whole, like the first quarter, the second one was marked by imitating active development of further steps towards liberalization, exemplified by the resounding title of Directive № 4.

Description the key events that defined the assessment of the trend

The President's annual speech in parliament was a significant event illustrating the trend of the quarter. In his speech he announced his plans of strategic liberalization, particularly his intention to issue a key document in this area, namely Directive № 4. When the President pronounces a certain initiative or strategy in person, it can be viewed as an important signal and a strong impetus for the vertical of power to begin working actively in this direction. The

directive is already being drawn up and can be expected to be issued before the end of the year. At the same time, until the document has been issued, the President's statement belongs to the same category as those of other high-ranking officials, who heralded "a lot of activity towards preparing" documents.

Other Events

Although Resolutions of the Council of Ministers № 644 and 649 came as no surprise, it does not change their anti-liberal nature. Resolution № 644 On Certain Issues of Enhancing the Use of the National Segment of the Internet in particular introduces strict rules of registering Internet resources, identifying Internet users and storing data on their online activities. New legislative initiatives in the fields of regulating insurance practices, out of court mediation, bankruptcy, etc. confirm that the Government has a tendency to consider different reform options. Work being done by the Supreme Economic Court towards optimizing the functioning of the judicial system, in particular an experiment on using e-documents in the judicial process bring further the trend towards a wider use of IT in social relations.

Events Contradicting the Trend and Why They Do Not Change the General Picture

No events contradicting the abovementioned trend towards the government's declarative active lawmaking and stricter rules of using the Internet were recorded in the given period. If the Law on Support to SMEs had been approved by the end of June, it could have become an event going against the overall trend.

Brief Forecast for Next Quarter

In the third quarter of 2010 state institutions will continue their exaggerated activity towards developing liberalization initiatives, so that the promised Directive No.4, decree on licensing and law on support to SMEs will be adopted. The government will go on further implementing IT in the country, at the same time strictly regulating the Internet.

Brief Forecast for the Year

The situation on international markets and rising energy prices will force the country's leadership to go on with limited liberalization. In 2010, on the threshold of the presidential election, the government is expected to pass resolutions that presuppose extra budget expenditures and improve the position of different social groups, including businessmen. We can expect the vertical of power to be strengthened and the system of state government to be reorganized. Electronic documentation is going to be more widely used, and at the same time state institutions are going to exercise stricter control over information transmission and its contents.

TREND 4

Geopolitical Orientation ▲—

Assessment of the forecast given in the last issue of BISS Trends

In the second quarter of 2010 Russia dramatically increased its pressure on Belarus in order to make it join the Customs Union with Russia and Kazakhstan, as well as consolidate Russian political and economic hegemony over Belarus in the longer term. Although Belarus took a hard line on the Customs Union, standing up for its interests at the negotiations, and openly clashed with Russia in the new gas war in June, clandestine ratification of the Customs Union Code on June 30, 2010 clearly shaped a pro-Russian trend in the trajectory of foreign

politics. The second quarter also made it evident that the Kremlin has its own political plans for the 2010 or 2011 presidential election, which is targeted against Alexander Lukashenko personally.

Belarus – US and Belarus – EU relations did not change for the worse drastically or irreversibly. Despite recognizing some improvement in the electoral procedures, EU and US observers pointed out that amendments to the election legislation had not actually had any impact on the election campaign and some objectives related to the improvement of the election legislation had not been achieved. The OSCE Office for Democratic Institutions and Human Rights (ODIHR) and the Venice Commission of the Council of Europe are preparing their assessment of the new Election Code of Belarus. The EU is going to assess amendments to the Belarusian Election Code based on the conclusion to be made by the OSCE.

Despite all its efforts, the National Assembly has failed so far to ensure its exclusive representation in the *EURONEST*, its parallel participation alongside the opposition still pending.

Justification of a new trend (April-June 2010)

On the initiative of the Kremlin, Belarus – Russia relations are now determined by Moscow's unilateral political and economic dictatorial practices. The new rules of the game have deprived Belarus of the remaining economic preferences it enjoyed for two decades. They can be restored only on condition that Belarus is totally and irrevocably incorporated into the Russian sphere of influence. Such a change in the Kremlin's approach to the Belarus – Russia relations has nothing to do with putting them on the lines of pragmatism. Rather, it demonstrates that Moscow has only changed its attitude to the Belarusian President, while putting up with billions' worth of losses caused by more loyal clients and satellites, such as the regimes of Viktor Yanukovych in Ukraine and Vladimir Smirnov in the Trans-Dniester region.

In the wake of the world financial and economic crisis Belarus has not yet recovered from this entails growing economic hardships Minsk has to face, causing it to seek new lenders, investors, suppliers of natural resources, trading partners and markets even more actively than before. Belarus is entering a long period of indefiniteness and risks both in the economic and (geo)political spheres.

Description the key events that defined the assessment of the trend

The operation to force Belarus to join the Customs Union on the Kremlin's conditions became an event with far-reaching consequences, which determined the Belarusian geopolitical trajectory in the second quarter of 2010. The operation came to be a leitmotif with serious implications for Belarus, determining the country's both short- and long-term prospects and its position in Europe and the whole world. All other events in the Belarus – Russia relations, including yet another unprecedentedly ruthless gas war between Moscow and Minsk, were only part of the general trend. Firstly, the developments on the Belarus – Russia front revealed that Belarus was financially vulnerable and had to urgently ask the Azerbaijani President for a modest loan of USD 200 m. Secondly, they were an ultimate proof that the 'Union State' project was an illusion, which already belongs to the past. These developments demonstrated a real conflict of interest between Belarus and Russia, not only short-term but also, much more importantly, long-term, with economic competition becoming more and more fierce. It was a clash of opposed political ambitions and lines of conduct, with accumulation of Minsk's symbolic gestures, actions and decisions, which offended the Kremlin's sensitivities and contradicted the Russian elites' idea of the appropriate place for Belarus in the geopolitical space. On the other hand, these events revealed deceitful practices of the Russian leadership,

who unilaterally de facto broke Belarus – Russia agreements. Thirdly, the room for maneuver between the East and the West, which has determined Lukashenko's foreign politics in recent years, has now been minimized, just as we predicted at the 3d annual BISS Conference *Belarusian Path in Europe* in February 2010. Lukashenko did not demonstrate the political will to renew the Belarus – EU dialog with a view to bringing the relations back to normal and opening new windows of opportunity for economic cooperation, which to some extent predetermined his silent surrender to Russia's demands late in June.

Cuts in natural gas supplies marked the limits of the Belarus – Russia alliance on a metaphorical level, making Minsk look for alternatives, which are highly unlikely to materialize in the next few years, even if the Belarusian leadership has an absolute political will to diversify energy supplies.

Events Contradicting the Trend and Why They Do Not Change the General Picture

Demonstration of healthy Belarus – Russia cooperation in foreign politics, defense and security was in discord with the two countries' economic disagreements. With the "gas war" at its very peak, on June 21 Alexander Lukashenko had a meeting with Russian Foreign Minister Sergey Lavrov and Security Council Secretary Nikolay Patrushev. However, this time the Belarusian President did not succeed in "elegantly" linking his role as Russia's defense force with economic preferences, the way he used to until recently. In reality major threats to Belarusian security come from economic factors, willingly or not generated by the Russian ally, rather than from international or military causes.

Brief Forecast for the Next Quarter

Ratification of the Customs Union Code means that the Belarusian leadership does not stand a chance of refusing to join the Customs Union. The country's domestic and foreign economic strategies will be undergoing further reassessment and adjustment. The government will be working out practical plans on how to achieve fast tangible results in the energy field, saving natural resources, carrying out infrastructural projects, raising export potential, etc. Considering the approaching holiday time, in July and August there will be minimal contacts with the EU, though issues of energy security will be a top priority on the agenda. The need to 'buy off' voters through a political and business cycle implies that the Belarusian government is going to stick to the idea of raising average wages and salaries as the election is drawing near. The harsh political confrontation with the Kremlin may cause the Belarusian leadership to seek keenly for prospective lenders that could grant Belarus a loan of about USD 1 bn.

Brief Forecast for the Year

It can be expected that:

- Russia will increase its economic pressure on Belarus at the latter's slightest attempts to breach Russian rules. Among other things, the two countries may sign a document that ensures establishing a unified economic space by 2011.
- Belarus will take vigorous steps (however, with minimal outcome) towards large-scale economic and industrial cooperation with China with a view to relying on its resources as an alternative for economic recovery in the wake of the crisis, stabilizing and further modernizing the Belarusian economy.
- Belarus will increase cooperation and do marketing research with prospective international business partners, interested in the Belarusian market, worldwide.
- Any significant improvement in the Belarus – US and Belarus – EU relations before the presidential election is unlikely.

TREND 5

Cultural Policy: Marginalization of Trends Towards Belarusization and Europeanization — ▼

Assessment of the forecast given in the last issue of BISS Trends

In general the second quarter of 2010 showed that the discourse of power was cautious in its cultural policy within the trends of Belarusization and Europeanization, just as it had been predicted. The government legitimized Belarusian-language culture and its representatives quite inconsistently and only to a limited extent. It should be noted that in the second quarter the limits of the cultural “truce” with civil society, called by the Belarusian regime, were clearly outlined. This refers to a flagrantly repressive reaction to the Tell the Truth campaign, initiated by civil society. Suppositions that the official discourse was going to show a good deal of initiative in the field of Belarusian culture, trying to establish communication with the Belarusian Diaspora, turned out well-grounded. So did the prediction that the government would stick to its tendency to control and maintain monopoly over this sphere by using a traditional arsenal of Soviet myths in order to sustain the established system of cultural values.

Justification of a new trend (April-June 2010)

In April-June 2010 there was noticeable regression in such trends as liberalization, Belarusization and Europeanization in cultural policy. Initiatives of the Ministry for Culture and its Minister Pavel Latushko are becoming more and more lacking in their European dimension. This trend is corroborated by the meetings held by Mr. Latushko, who the general public used to view as a pro-Belarusian and to a certain degree pro-Western figure. Unlike the first quarter of 2010, the second one saw the vector of cultural cooperation move noticeably eastwards, the Belarusian minister having had meetings with the Georgian and Ukrainian ambassadors, as well as the Executive Director of the CIS Intergovernmental Cooperation Fund. In addition, the ministry organized a Year of Belarusian Culture in Russia. Moreover, the policy of the Ministry for culture, intended to diversify the cultural identity of Belarusian society, is becoming marginalized as other institutions of power take more dynamic actions strengthening the traditional definition of Belarusian culture as closely related to the Russian one. In this context the event most representative of the trend was the ten-day Victory Day celebration, which brought back Soviet liberation mythology as a decisive one for Belarusian national identity. The power discourse continues its effort to make the subject of World War II absolutely sacred. The scale of celebrations, which included a military parade and fireworks, in the year when economic problems are aggravating, merely brings into focus the government's attempts to ease growing social tensions by constructing myths of national unity. On top of that, a similar vocabulary is being used to describe the international economic crisis as a foreign threat, which is interpreted as a challenge for the nation. The underlying importance of Soviet ideological constructions for the regime's cultural policy was also manifested in the efforts to reconstruct the wartime atmosphere. The fact that the Stalin line memorial was constructed and Minsk's main thoroughfare was decorated for Victory Day in the style of the late 1940s underline that the government is not prepared to give up manipulating the Soviet past and its myths. The regime is not going to renounce its monopoly on the public space and is trying to eradicate all possibility of unpredictable dialog with civil society in the sphere of culture, which might question values the government is transmitting.

Thus, the second quarter of 2010 was characterized by weakening trends to Belarusization and Europeanization. The regime is trying to confine Belarusian cultural identity to the Soviet period only. The government's strategies in cultural policy are in many aspects repressive,

confirming a strengthening trend towards de-liberalization and showing that the government's intentions in the European dimension were just talk.

Description the key events that defined the assessment of the trend

The celebration of the 65th anniversary of victory in the Second World War can be singled out as a key event of the quarter. It quintessentially signaled strengthening pro-Soviet and Russifying trends, which undermined attempts to diversify the Belarusian cultural space through Belarusization and Europeanization, made in the first quarter and associated with Minister for Culture Pavel Latuska. Falling back on the old Soviet cultural capital was in sync with the renewed culture war between the government and civil society.

The unexpectedly large-scale repression against the *Tell the Truth* initiative also reveals the true value of European cultural symbols in the eyes of official ideology. Any steps civil society takes towards building up a kind of communication that would presuppose a critical approach towards the actions of the government or enable the civil society to formulate problems on its own cause the regime to use its repressive tools more aggressively. In this way the government is trying to eliminate a chance of civil society raising its activity levels, as well as keep it and the 'dialog' rules under control.

Other Events

The negative dynamics of the Europeanization trend in cultural policy was complemented by the dispersal of a gay and lesbian rally, which was going to be held on May 15 in Minsk. Exclusion of minor social groups and all types of minorities (religious, ethnic, etc.) that do not match the government's system of values reflects complexes typical of the regime with its ideology. It is unable to accept individual freedoms characteristic of the European cultural space as something fundamental and indispensable. On the contrary, the government goes on unifying Belarusian society by defining heterosexuality as a dominant norm, which is further reflected in the ideology of traditional family values.

The trend towards Russification is marked by the Year of Belarusian Culture in Russia, which officially is called to emphasize the close cultural kinship with Russia. In this way the Government recognizes the secondary nature of the local cultural discourse as compared to the cultural metropolis, proclaiming a rather controversial concept of the two nations' common history. In the context of a pragmatic approach to culture it is necessary to mention President Lukashenko's critical remarks about the official writers' organization being unprofitable and film industry undergoing a crisis. The proposed strategy of making cinematography profitable is notable for its all too familiar regulatory and repressive methods, which would oblige Belarusian TV to show a preset percentage of Belarusian movies. When similar restrictions were imposed on the radio, it led to a fall in ratings, so we can predict with absolute certainty a similar fall in ratings and consequently profits of local TV stations.

Liquidation of the *Zniata* photo gallery in Minsk fitted into the outlined trend. For quite a time it was a center of independent and uncensored art in Belarus. It is notable that the gallery was closed not in a "pinpoint attack" but "by default", when the ideological department of *Kinavideaprakat* unitary enterprise received a recommendation from the Minsk executive committee, which prescribed stopping cultural events that included private initiative.

Among other events a special place belongs to the *Eurovision* contest, particularly a symptomatic reaction of the Belarusian official discourse to it. Too much importance given to the *Eurovision* reflects a certain inferiority complex and lack of confidence in Belarusian cultural identity. A desire to prove to other nations that Belarus belongs to Europe, whether as its geographical center or by ranking high at Eurovision, turns a commercial show in the Belarusian cultural discourse into a contest, which in the final analysis fits well into the Soviet logic of competition.

Events Contradicting the Trend and Why They Do Not Change the General Picture

The main event that went against the trend towards Russification and de-liberalization of the Belarusian cultural space was undoubtedly the *Tell the Truth* campaign, initiated by civil society activists and intended to engage different institutions of government in an equal dialog in order to reveal some pressing issues. It was an attempt to establish direct communication between civil society and the Government, which is characteristic of today's European space. Actions within the *Tell the Truth* campaign articulate a number of important problems, at the same time indirectly drawing off a veil of sacredness from the Government, localizing its monopoly on violence and facilitating increasing awareness in civil society. The campaign's short duration has not yet given a chance to record any real change in the government's cultural policy. However, the campaign has not only brought together renowned writers, poets, cultural figures and intelligentsia but is also building up a volunteer network. This fact combined with the regime's negative reaction to the campaign gives some reason to hope for a new stage in the relations of the Government and civil society.

Among other events contradicting the general trend was the decision of the Belarusian authorities to show the film *Khatyn* by Andrzej Wajda on April 18 2010, during the funeral of the late Polish President Lech Kaczynski, who had died in an air crash near Smolensk. Before that, the film had been banned for ideological reasons, mainly for its anti-Stalin and anti-Soviet message. Two months later, ONT national TV station showed a documentary *Khatyn: Belarusian List*. It was probably the first time since Lukashenko rose to power that state television had spoken about the "anti-Soviet" version of the *Khatyn* massacre, admitting that Belarusians had made up a large proportion of its victims. The Belarusian authorities, unwilling to declare national mourning on the day of Kaczynski's funeral, showed *Khatyn* as a minor concession to Poland. In spite of such political considerations, these events are worth mentioning as the first small steps towards de-Stalinization of the Belarusian regime's political discourse.

Finally, it should be pointed out that the 600th anniversary of the victory of Polish, Belarusian and Lithuanian forces in the battle of Grnwald on July 15, 2010 was celebrated on a rather high official level. The government officially sponsored the main part of the celebration in Belarus, namely a knight festival called *The Castle of Navahradak*. Unfortunately, they managed to turn it into a replica of their favorite kolkhoz style festival called *Dazyunki*.

Brief Forecast for the Next Quarter

In the short term it has to be expected that in the sphere of culture the authorities are going to make an active use of Soviet symbols and liberation rhetoric in connection with the upcoming celebration of Independence Day. In addition, it would be logical to expect the regime to appropriate selectively some national symbols and historic events. In doing so, it may be pursuing two aims, appropriating the traditional cultural capital of oppositional actors and creating an illusion of liberalization in the field of culture.

Brief Forecast for the Year

The government seems to be guided by a wait-and-see policy in choosing a further direction in the cultural dimension. The Europeanization trend will not be completely abandoned, nor will it have a decisive role. The trend towards Russification will not be completely dominant, either, due to the political and economic clashes between Belarus and Russia. It looks more probable that the government will claim to be making its own way in cultural policy. Soviet rhetoric will continue to play an important role in it, as it enjoys stable popularity in the Belarusian society. Besides, it can be expected that civil society will be acting more energetically in some areas, including culture, and that the discourse of power will react negatively to civil initiatives.



4 July – September 2010

EXECUTIVE SUMMARY

For the first time since the BISS-trends monitoring began, we are seeing the trend towards liberalization in all areas of life. However, in general, in the past year, the most stable and consistent has been the trend of economic liberalization, which allows us to speculate about deliberate awareness of the Belarusian authorities in regard to the development of market relations in Belarus.

In the field of democratization and political liberalization, we observed no visible obstacles to self-organization of alternative political forces. At the same time, visible improvements in the functioning of civil society and independent press were not marked.

In the area of economic liberalization, the last quarter was characterized, on the one hand, by the adoption of important and long-awaited decisions on pricing, labor, and licensing; on the other hand, by predicted failures in privatization and reforming the existing system of financing public programs.

In the area of good governance and the rule of law, a number of regulations aimed at liberalizing economic activities were adopted. Among them, in particular, the Law on Support of Small and Medium Enterprises, the Amendments to the Law on Business Associations, the decree on licensing certain types of activities and others.

In the geopolitical orientation there was observed an increase in the apparent conflict with Russia, while strengthening cooperation with the Baltic countries and Ukraine. The crisis in the Belarusian-Russian relations, however, caused only minimal progress in relations with the EU. Belarusian authorities continue to insist that the EU should abandon its policy of making terms in relations with Belarus.

Finally, in the field of cultural policy the trend of Europeanization and Belarusization was restored, most strikingly it was manifested in the official celebration of the 600th anniversary of the Battle of Grünwald.

TREND 1

Political Liberalization and Democratization —▲

Assessment of the forecast given in the last issue of BISS Trends

Contrary to predictions, the beginning of the campaign (on 14 September, the parliament of Belarus scheduled the presidential election for December 19, 2010) is not accompanied by increased repressions against political activists, including members of the opposition politicians' campaign teams.

The situation with the freedom of expression in the country remains stable, although it is still alarming: newspapers receive official warnings, documented cases of "disappearances" of independent newspapers circulations occur.

The number of newly registered public associations is not decreasing compared to non-electoral years. However, some administrative obstacles to institutions – a legal form of non-

profit organizations – began to be applied. So far, the elimination of institutions is neither massive, nor persistent: court cases to liquidate institutions with political backgrounds (like “Right Alliance”, or “Moving Forward”, which is affiliated with the political campaign “Tell the truth”) have been postponed, contrary to many forecasts that court decisions on liquidation would follow, and this practice would be further applied to other NGOs registered as institutions.

Opportunities for communication with voters increased at the stage of collecting signatures, denying exclusively repressive scenario for the future campaign.

Justification for the new trend (July–September 2010)

In terms of political liberalization and democratization, minimal progress was recorded. At the same time, some changes that occurred are rather significant. For example, one should note some progress in the field of freedom of the signature collection, and expanding opportunities for communicating with voters. However, the final evaluation of their significance will only be up to the election campaign as a whole.

Nota Bene: *this estimate is displayed not only in comparison with the previous quarter monitoring, but also in comparison with the corresponding period of preparation and holding of the presidential campaign in 2005–2006.*

So far, the election campaign in 2010 is held in a relatively liberal atmosphere. The Central Commission on Carrying out Elections and Referenda was rather positive about the registration of initiative groups of presidential candidates. 17 out of the 19 applications were approved and only two rejected, following and were obvious failure to meet the requirement on the size of the action teams. None of the oppositionists were denied registration. On the contrary, they were even met halfway, like e. g. a group of candidates from the Belarusian Christian Democracy: having mistakenly provided a wrong file with a list of the initiative group, they were given a chance to replace an e-list. Many potential candidates were allowed to add new people to their teams, even after submitting applications to the Central Commission.

The territorial election commissions include more representatives from opposition parties. Rejection rate for opposition representatives remain substantial, but it is smaller than during the previous presidential elections (in 2006, according to the old version of the Electoral Code) and during the local elections (in 2010, already on the new edition of the Electoral Code).

Description of key events that defined the assessment of the trend

Announcement of the presidential elections had an impact on all components of the trend (democratization and liberalization in the sphere of freedom of speech, of association and non-profit organizations, opportunities for political opposition).

However, the major opposition actors had been approaching the pre-election mode since as early as April–June 2010. As a result, the active opposition had switched to the pre-election mode in August, i.e. before the announcement of the election campaign. By that time, authorities had also entered the electoral phase of the political business cycle (i. e., they resumed administrative increases in wages). It is worth noting some intrigue with the election date: the decision was passed by the Parliament not on the first day of the extraordinary session, as had been predicted. Yet, no one can claim that the elections are held ahead of schedule: the deviation from the latest date possible is just six weeks.

Other events

Freedom of expression. The government once again issued official warnings to independent newspapers during the covered period, and the web freedom was limited de facto (e. g. the Decree № 60 stipulating identification of users came into force from July 1, 2010).

Particular attention should be paid to the adoption of the Decree № 515 “On Some Measures for the Development of Data Transfer Network in the Republic of Belarus” on September 30, 2010, providing the Operations and Analysis Center (OAC) under the auspices of the President with functions of a new IT regulator. As a regulator, the OAC is supposed to administer licensing, strategic development, fair competition and the direct management of the telecommunications industry. These measures could mean both further liberalization and increasingly restrictive regulation in this area.

Last but not least, the death of Aleh Biabenin, a journalist of the pro-opposition website Charter 97, caused many questions. On the one hand, Biabenin’s colleagues doubted the official suicide version, and put forward various suggestions, in which the performers are either Belarusian or Russian security services. However, convincing evidence has not yet been provided. Neither have the opponents explained credible motives for the authorities to murder Biabenin. On the other hand, the Belarusian government does not oppose the objective investigation of the case and even invited OSCE experts to participate in the investigation.

Freedom of association and NGO activities. Statistics suggest there was no deviation from the usual dynamics, which is surprising in view of the election period. The Ministry of Justice and the chief justice departments of regional executive committees reported in the first half of 2010 that 68 new associations (3 international, 9 national and 56 local ones) and 10(sic!) new foundations (1 international and 9 domestic ones) were registered. These figures compare with figures “non-electoral” periods or surpass them.

At the same time, many NGOs and parties still face difficulties with registration. For example, the registration of the Belarusian Christian Democracy party was again delayed in September 2010. Litigation has been launched to eliminate politically engaged institutions; matching names of new institutions is de facto unofficially banned. The Association of Civic Education has been denied registration unlawfully and with gross procedural violations.

Introduced in September, changes in the Regulations on Registration of NGOs slightly complicate the procedure for registration of new organizations. As far as NGOs audits by tax authorities and state control bodies are concerned, they were more multiple in the third quarter of 2010 than in the previous period.

Opposition activities. The Ministry of Justice is conducting audits of the BPF party, two written warnings were issued to the NGO “BPF Revival” and the BPF party. The BPF Congress where the party candidate for the presidency was nominated was declared illegitimate by the Ministry decision. With regard to repressions against opposition activists and some street protest participants, positive changes are visible.

Political democratization. The beginning of the campaign and registration of initiative groups were liberal in manner. But the adoption of certain regulatory and procedural acts by the Central Commission as well as the failure to comply with Alexander Milinkevich’s proposal for including candidates’ trustees to electoral commissions suggest that the government intends to retain control over the vote count.

Still, there are positive trends in terms of the nomination of candidates, the possibility of collecting signatures and campaigning. For example, more opposition members have been let into regional commissions (e. g. two BPF members and one Social Democrat in the Minsk City Commissions). Reasonable locations were provided for signature-collecting teams, enabling them to interact with people and to present their aspiring candidate. In some cases, the Central Commission intervened to provide local authorities with recommendations to revise some heavily restrictive decisions against the candidates’ teams.

Events contradicting to the trend and why they do not change the general picture

The criminal case against leaders of a political campaign “Tell the Truth” Niakliayeu, Vazniak and Dzmitryieu is going on, with interviews of witnesses being conducted. Mikita Matusевич, a campaign activist, has been convicted. Another campaigner Mikhail Bashura is still under investigation, held in custody.¹

The political emigration of a number of prominent opposition figures: Ales Zarembyuk, Siarhei Panamarou and Colonel Vladimir Baradach, a former brigade commander of Special Forces (all applied for political asylum) – is undoubtedly a negative trend which indicates a latent pressure on the opposition.

According to the Human Rights Centre “*Viasna*”:

	I quarter 2010	II quarter 2010	III quarter 2010
All cases of administrative prosecutions	183	131	75
Including – the use of arrest as an administrative penalty by the court	7	2	1

Brief forecast for the next quarter and next year

The number of newly registered NGOs is not declining, and one can expect it to be similar in 2010 to the rates of “non-electoral” years.

We can also assume that the year will be marked by reduction of repression (arrests, detentions etc.) against opposition members. However, one cannot be sure about it because, as practice shows, the final stage of campaigns and the first two weeks after elections usually witness the biggest crackdown measures.

TREND 2

Economic liberalization ▲

Assessment of the forecast given in the last issue of BISS Trends

Predictions about the continuation of the cautious liberalization have in general come true. The government has taken a number of documents that structure their intention to liberalize the economy in order to encourage potential investors. However, the Belarusian authorities still have to balance between addressing macroeconomic problems, preserving the overall framework of the Belarusian economy and creating visibility of significant liberalization.

Justification for the new trend (July-September 2010)

The past quarter has been characterized, on the one hand, by the adoption of vital decisions on economic liberalization (in pricing, labor market and licensing), on the other side – by predictable failures in privatization and reform of fundraising for state programs.

Description of key events that defined the assessment of the trend

Third quarter of 2010 began with a landmark event: the European Commission delegation headed by Stefan Depieper, the director of the Department of anti-dumping measures of the

¹ Last-minute news: Bashura was found guilty, fined with 500 “basic amounts” and released from custody immediately in the courtroom.

Directorate General of Foreign Trade paid a visit to Belarus on 30 June to 2 July. Launching the procedure of the EU's recognition of market status of Belarus' economy was the main goal of the visit, which is of great importance during the EU anti-dumping investigations against Belarusian products. It is obvious that the recognition of market economy status of the Belarusian economy will take years, but now we can say that Belarusian officials have another objective landmark in the further liberalization of the economy. We can recall another landmark: that is, reaching the *Top-30* States of Doing Business rating.

Undoubtedly, signing the presidential decree № 450 on September 1, 2010 "On Licensing of Certain Activities" was the most awaited event in terms of the economic liberalization of Belarus in the third quarter. The Decree provides for the abolition of licensing of 16 activities, of which 7 include the 59 components (operations or services). Regulations on licensing of certain activities were approved by the Decree, with an attached list of activities that are subject to special permission (license), and also a list of state bodies authorized to issue licenses (the list of licensable activities is exhaustive). The Decree comes into force on January 1, 2011.

It is particularly important that the most dominant businesses – trade and catering, which used to amount for over 50 per cent of issued licenses, were excluded from the list of licensable activities. However, the licensing of publishing and printing activities retained. Obviously, the granting of licenses for them has purely ideological foundation. Advocacy and legal services have also remained subject to licensing.

Approved by the Council of Ministers on 9 August by the Decision № 1180, the Strategy for Development of the Energy Potential of the Republic of Belarus has made a real sensation. One of the most radical reform programs for electric-power industry, housing and public utilities is stated on 18th page of this document.

The goal of the national strategy in this area is the phased creation of a full-fledged wholesale electricity market by 2014–2015. Creating an electricity market operator is planned for this purpose, called "The Market Operator", to coordinate all purchases and sales of energy and power in accordance with market rules. Strategy calls for the corporatization (privatization) of the entire sector of the energy production, transportation and sales, prioritizing renewable sources producers, including individuals. It also assumes the establishment of independent electricity suppliers.

The strategy also involves the stage-by-stage elimination of cross subsidies in the prices of gas and electricity tariffs by 2014. In particular, preferential prices for gas and electricity tariffs for certain legal entities and entrepreneurs are supposed to be abolished by 2012. Complete elimination of cross subsidies in gas prices is expected in 2013, and tariffs on heat and electricity – in 2014. Practically, this is an ambitious program of comprehensive reform of the country's energy vaguely similar to the RAO UES strategy of energy reforms.

The declared goal to achieve a "cost transparency at all stages of production, transmission, distribution and sale of electricity and heat" should be mentioned as a possible pitfall on the way of implementing this reform. It is doubtful whether the public is going to have access to all information about costs and, consequently, tariff-making. This means that citizens will have no choice but again to trust the government's word that all tariffs will be justified and fair.

Other events

Several regulations were passed in the 3rd quarter of 2010 to facilitate the privatization of state property and the implementation of investment projects in the country. Presidential decree dated 19 July 2010 № 367 "On some Amendments and Additions to Some Decrees of the President of the Republic of Belarus on the Disposal of State Assets", among other things,

establishes the procedure for payment by installments upon transfer of some public real estate that is directly assigned to the republican bodies of state administration and other state organizations subordinated to the Government, public bodies and organizations subordinate to the President of Belarus, and the administrations of free economic zones.

The Decree stipulates the provision of installment payments for a period not exceeding one year in the sale of buildings, premises, unfinished buildings, or equipment, valued at more than 10,000 basic amounts. In addition, the State Property Committee is empowered to make decisions on the orders of state property, whose value does not exceed 5,000 basic amounts. Delegating this power to this authority will allow more rapid decisions on the disposal of unused state property.

A presidential decree dated August 4, 2009 № 410 “On Amendments to the Presidential Decree of February 25, 2008 № 113” makes it easier to attract investment to loss-making state organizations. A criterion of “stable insolvency” has been excluded from the document. As a result, the number of organizations covered by the Decree № 113 will increase. In general, the implementation of the Decree № 410 will expand the scope of the decree № 113 to reduce the number of unprofitable state-run enterprises, attract investment and secure additional revenue to the national and local budgets.

On 26 July, Belarus completed placement of Eurobonds in the amount of USD 600 million with a warrant of 8.75 per cent, expanding in 2015. According to the Ministry of Finances of Belarus, their issue has attracted the attention of a wide range of investors from different regions of the world and was oversubscribed three times. Applications for participation in the placement were obtained from 145 investors for a total of USD 1.5 billion. Belarus additionally placed USD 400 million Eurobonds on 10 August, with profitability of 8.25 per cent for additional placement by the repayment.

Obviously, the decision by the government on its first Eurobond issue was caused by the need to supplement the budget and finance the current account deficit of the balance of payments, while unwilling to undertake conditions as for stand-by programs. However, entering the market of foreign loans has important positive value, as from now investors will have an impartial market-based mechanism for evaluating the credit capacity of Belarus as a sovereign borrower, other than rating agencies' judgments.

On September 24, 2010 Belarus finally got its first bank-managed fund (BMF, an instrument of collective investments which is an analogue of mutual funds, yet regulated by the National Bank, not the Securities Committee), namely, the BMF Capital Trust Fund *Belinvestbank*. The basis for the functioning of the BMF was provided by the presidential decree dated March 3, 2010 № 131 “About Carrying out an Experiment to Generate Bank-Managed Funds”. The need for the development of FBU in Belarus is due to the emergence of new and effective mechanisms for banks to expand their ability to attract and allocate funds, and for individuals and legal entities to obtain financial market instruments alternative to traditional.

Presidential decree dated September 23, 2010 № 484 “On Repeal of the Decree of the President of the Republic of Belarus of February 5, 1997 № 132” abolished the government's right to determine expenditures composing the net cost of goods (works, services). Previously approved by the joint decision of the relevant ministries, from now on the basic provisions on the composition of expenses included into the cost of products (works, services) will be only advisory in nature. It will be up to organizations to determine for themselves how they shape the net cost of production. In fact, one can talk about removing the last of the three mechanisms of state intervention in pricing. The so-called “price increase limits” and “rate of return limits” lost their mandatory status earlier. We can also assume that the decree would contribute to liberalization of economic activities, simplify accounting, as well as promote the convergence of national legislation with international financial reporting standards.

An important event was also the Council of Ministers' Decision on 6 September 2010 № 1285 "On Amendments to Some Decisions of the Council of Ministers and Repeal of Certain Provisions of the Government of the Republic of Belarus or their Parts". According to the regulation, property owners and employers have obtained more rights to shape conditions of remuneration of managers and employees. Administrative control over wages was reduced. The procedure for calculating and paying bonuses to officials in commercial organizations became simpler.

Events contradicting to the trend and why they do not change the general picture

In March 2010, President Lukashenko approved a list of 5 public companies, whose shares will be sold at the competitions with the participation of external consultants. This decision was one of the two key conditions for receiving IMF stand-by loan. The list included: "Babrujsk Machine Plant", "VolMet", "Lida Foundry-Mechanical Plant", "Barkhim" and "Ренуца Textiles". August 18 was scheduled to conduct competitions for the sale of state-owned shares of the first three ("Babrujsk Machine Plant", "VolMet" and "Lida Foundry-Mechanical Plant"). However, investor interest was minimal, with just one offer submitted and, yet, shelved. An attempt to sell two other companies ("Barkhim" and "Ренуца") on 23 September also returned zero results.

Obviously, the pilot privatization of the five enterprises failed because of dissatisfaction by the economic authorities of Belarus with the IMF-e proposed mechanism of an open tender. Authorities prefer to negotiate with investors individually, not least because of the possibility of making secret terms. In addition, the privatization is considered by the economic authorities of Belarus solely from the fiscal perspective, i. e. as a means to supplement the budget rather than to reshape the structure of the economy.

Creation of a specialized financial development agency was the second key requirement on the side of the IMF for a stand-by loan. Creating such an agency within the described quarter did not happen for reasons that are rooted in the conflicts within the power apparatus.

On August 3, at the working meeting of President Alexander Lukashenko and Prime Minister Sergei Sidorski, the chairman of the National Bank Petr Prokopovich, as well as the heads of two major banks in the country, the chairman of Belagroprombank Sergei Rumas and chairman of the board of Belarusbank Nadezhda Yermakova, President questioned the necessity of creating such an agency, seeing it as the desire of banks to withdraw from the service of state programs in full. Quote: "The banks simply want to make their life easier and get away from government programs, and you know they are huge – the revival of the village, and the "Milk" program, and the "Meat" program. It does not befit banks to seek to an easy life and get away from it, because basically these programs are supported by state-owned banks".

On the other hand, the Finance Ministry opposes the creation of a specialized agency, insisting on establishing some kind of "development bank" instead. It is obvious that both sides present a misunderstanding of the true mission of a financial agency (as a tool of economic restructuring), because the National Bank is inclined to see in it only as a "bad bank" (see function 1), while the Finance Ministry is opposed to budgetary constraints (see the function 2). Another explanation could be a conscious desire to dilute the essence of the IMF demands, meeting them only formally.

That is what happened with the requirement of creating a specialized privatization agency (which ultimately was established on the basis of impotent Agency for Foreign Investments). Nevertheless, the National Bank of Belarus believes that a specialized financial agency will be created in Belarus by the end of the year; it will be able to start actually working not earlier than 3 or 4 months after signing a decree establishing it.

Through the mouth of the Prime Minister Earlier some time ago, the government promised to increase salaries for low-paid categories of employees from 1 September by increasing the rate of the first discharge from 90 thousand to 180 thousand rubles. Clearly, its doubling would have led to serious inflationary pressures. However, even an increase by one third (to install the wage rate at 118-120 thousand rubles, as planned from 1 November 2010) causes a concern about the Belarusian economy. What is particularly disturbing, the pre-election wage growth is taking place against a background of lower budget revenues. The forecast by the Finance Ministry on budget deficit grew by 44 per cent (from 2,7 to 3,9 per cent) between January and August; the emerging trend will be for sure reinforced by spending for the upcoming salary increase.

Brief forecast for the next quarter and next year

The economic policy in the country will be determined by the political requirement to achieve the average wage of USD 500 by the end of the year.

There is just one more thing in terms of further liberalization scheduled for the rest of this year: the Directive № 4 on Liberalization, promised by the President, but still under construction since as long ago as April 2010.

It is most likely to be also presented as a part of the election program of the incumbent. This gives grounds for hope that the document is not a mere formality. However, serious structural changes, obviously, are set aside for post-election period.

Administrative pressures to meet overstated wage and GDP targets will undoubtedly create macroeconomic imbalances. As a result, we can expect the resumption of cooperation with the IMF to develop and implement another anti-crisis program.

TREND 3

Good governance and the rule of law ▲

Assessment of the forecast given in the last issue of BISS Trends

As predicted in the last issue of BISS Trends, liberalization initiatives were continued to be generated, and those finally bore fruit in the form of regulations. New steps were made towards informatization, resulting in the adoption of Information Society Development Strategy in the Republic of Belarus for the period until 2015. Finally, as expected, strict rules to regulate the Internet were put in place, under the Decree #60. However, the expected reform of the power hierarchy and reorganization of the government ahead of presidential elections did not happen.

Justification for the new trend (July-September 2010)

The trend in the third quarter of 2010 can be labeled as “minimal progress”. A number of regulations aimed at liberalizing economic activities were passed in July-September. We believe that this happened in the process of achieving the government’s goal – achieving the Top-30 of countries with the best business environment according to the World Bank. Among the documents adopted, in particular, there are the Law on Support of Small and Medium Enterprises, the Law “On Amendments to the Law “On Business Associations”, the Decree “On Licensing Certain Activities” and others.

In addition, in the third quarter of 2010, government strategists reached an important stage in the process of laying the foundations for an information society and e-government in Belarus. This will certainly help to optimize the economic processes and to improve governance in the future, as well as increase the competitiveness of Belarus as a state attractive for doing business.

Against this backdrop, stringent measures to regulate the Belarusian segment of the WWW and to meet the deadline set for 1 December 2010 by the Decree № 60 “On Measures to Improve the Use of the National Segment of the Internet” were introduced in place during the quarter. In general, the third quarter of 2010 was characterized by the appearance of specific regulations and simultaneous declarations on the active pursuit of further liberalization measures, in particular the Directive № 4 which, if judged according to the responsible officials, is getting outlined.

Description of key events that defined the assessment of the trend

The main event, illustrating the trend in the quarter, in our opinion, was the approval of the Information Society Development Strategy till 2015 by the Council of Ministers. This strategy includes, inter alia, the establishment of industries of public electronic services in the e-government, e-learning development, health, employment and the economy as a whole, i. e. all the attributes of a contemporary post-industrial society. Analysis of the document shows that the government strategists recognize the need to follow the world trends of economic and social models.

Other events

Enacted on July 1, the Law on Support of Small and Medium Enterprises defined the legal and institutional frameworks for that support; in particular, it has established clear criteria for the classification of business entities to categories of small and medium-sized businesses. The criteria enable them to qualify for special benefits provided for in other regulations. However, representatives of business community expressed a well-grounded critical opinion about the fact that the law constitutes a framework declaration, while a range of extra regulations is needed for real improvement in conditions of small and medium businesses in Belarus. Thus, the long-awaited law has not changed the situation radically; one should wait for the publication of changes in taxation and accounting legislation and, most importantly, the Directive № 4.

Enacted on 15 July 2010, a new piece of legislation “On Amendments and Supplements to the Law of the Republic of Belarus “On Business Associations» simplified the procedure for the establishment of companies and decision-making competence of general meetings of members, as well as enhanced the protection of minority shareholders.

On 1 September, Decree № 450 “On Licensing of Certain Activities” nominally reduced the number of licensed activities by 16 positions. At the same time, experts claim that only 6 activities were actually released from licensing, while the remaining ones merged with others under a common name. For example, it remains unclear before a relevant decision by the Council of Ministers what will be categorized as “legal services”, since this term might also include those excluded from licensable activities, e.g. auditing services or dissemination of legal information. The principal innovation is the abolition of licensing in the retail sector, as well as design engineering and construction.

Ministry of Justice and the Supreme Economic Court continued efforts on optimizing the judiciary. A pilot trial with a remote video conferencing was conducted for the first time in the third quarter. According to the work evaluation of common courts, a number of civil cases in the courts significantly increased in the first half of 2010 over the same period last year (14,5 per cent). This indicates an increase in public confidence in the judicial system as a tool of settling disputes and protecting legitimate rights.

Events contradicting to the trend and why they do not change the general picture

The presidential decree № 60 “On Measures to Improve the Use of the National Segment of the Internet” was enacted at the beginning of the 3rd quarter. Since then, Internet service

providers must carry out the identification of devices of users of Internet services, to record and store information on such devices and web services provided. Internet service providers are obliged to have a technological base for user data storage and identification. Despite the fact that from now on, anonymous browsing is legally impossible in Belarus, such a development was pre-determined earlier, therefore, this fact does not change the picture of the trend against the background of the liberalization measures described above.

Brief forecast for the next quarter and next year

The quarter IV of 2010 will be marked by the presidential elections scheduled for the end of the year. This fact will leave its mark on all spheres of public life, including the quality of governance and the rule of law. Any event like the adoption of a piece of legislation or an official statement will reach out to society. It seems possible to expect “revolutionary” Directive № 4 on the economic liberalization in the coming months for tactical reasons, as well as the amendments to the Taxation Code, aimed at its further deregulation, etc. The development of informatization of the country will be held in combination with rigid regulation and control of activity of individuals and organizations on the Internet.

In the balance of payments deficit, the growth of credit debt of the state and lack of resources to maintain the financial stability of the country's leadership will be forced to accelerate liberalization, expand space for private initiative and establishing fair rules in the Belarusian market for (foreign) private capital. Most likely, this will happen after the presidential elections in early 2011. At the same time, elements of the information society are likely to be promoted – yet, with increasing state control over the communication channels and its contents.

TREND 4

Geopolitical orientation: Relations with Russia ▼

The relations with the Baltic States and Ukraine —▲

Assessment of the forecast given in the last issue of BISS Trends

In general, the previous prediction was correct: as expected, in conditions of acute political confrontation with the Kremlin Belarusian leadership looked for other potential investors and donors that could contribute to the re-election of Lukashenko. However, nothing indicated that the Kremlin would get so rigid in its reactions.

Justification for the new trend (July-September 2010)

The entire third quarter of 2010 was marked by a sharp aggravation of relations between Belarus and Russia. The minor “gas war” in June, however, left Russia without any achievements in terms of goals pursued by this “war”: to convince the countries of Western Europe that the major problems with energy supplies arise through the fault of the transit countries, to push Belarus and Ukraine against each other; and to harm the financial stability in Belarus.

At the same time, Belarus has made progress in cooperation with the Baltic States and Ukraine. And finally, the July visit of Jbtefan Fble, the EU Commissioner for Enlargement and Neighbourhood Policy, clarified the position of the European Union: free and fair elections in exchange for EU assistance in the modernization and creation of a new “action plan” in autumn 2010.

Description of key events that defined the assessment of the trend

Russian NTV aired a “documentary” on the Belarusian President “Godfather” on July 4, 2010, presenting the economic achievements of Belarus as a result of Russian “subsidies”

amounting to the overall USD 52 billion. Lukashenko was accused of insincerity and failure to live up to commitments towards Russia, as well as organizing kidnappings and killings of several political figures. Characterized by the haste and apparent laxity, the film was immediately followed by an English-language version “Hard Luka” on the state-funded Russia Today TV, broadcasting in English and intended for foreign audiences (Lukashenko was called “Europe’s last dictator”), thus leaving no doubt that this was done on Russian leadership’s order.

A sociological study conducted in Belarus after the screening of the first two parts of the film showed that it watched by about 40 per cent of respondents. Assessments differed from the “absolute truth” to “absolute slander”. The most logical assumption is that these films were made for in-house “consumption”. This was largely due to the fact that at the time referred to the June gas dispute Russian public opinion was clearly on the side of Belarus, and the Russian government is trying to justify its policy towards Belarus as a country by forming a negative image of the leader of Belarus. A new wave of confrontation in August fully confirmed this version.

The first channel of the Belarusian TV showed an interview with Mikheil Saakashvili, the Georgian President, on July 15. He thanked Minsk for a balanced policy towards Abkhazia and South Ossetia and criticized Moscow for its strange demands on him. On 16 July, during a trip to Homiel region, the President of Belarus told about his previous informal weekend with the Georgian leader in the Crimea to celebrate the anniversary of Viktor Yanukovych.

On the same day, on July 16, the NTV channel demonstrated the “Godfather-2”. Basically, the story repeated the first part of the film. However, the film-makers added extra accusations against Lukashenko: the co-operation with Saakashvili, the ousted Kyrgyz President Kurmanbek Bakiev and an internationally wanted businessman Boris Berezovsky.

At a news conference in Sochi on 3 August, Russian President Dmitry Medvedev announced that the President Aliaksandr Lukashenko had demonstrated intention to recognize independence of Abkhazia and South Ossetia, showing no regard to its own parliament. The reaction to the revelation of the Russian president came soon. Lukashenko accused Medvedev of dishonesty and bad faith on August 13. According to him, Medvedev misrepresented the contents of a conversation about the recognition of Abkhazia and South Ossetia.

The third part of the “Godfather” was screened on August 15, accusing Lukashenko of creating a system of money laundering under the guidance and supervision of the president’s family. The authors of the movie reminded that 10 years ago Lukashenko was presumed to have a mosaic psychopathy diagnosis by Dzmitry Shchyhelski, a Belarusian psychiatrist.

In addition to this, the Russian side has conducted unilateral actions against their commitments under integration agreements, in particular the Customs Union. For example, based on a report by the Ministry of Economic Development on August 10, the Russian Government attempted to justify their claims to a share of Belarusian export duties on oil products produced from Russian raw materials, in addition to the existing export duties on oil and oil products in trade among the member states of the Customs Union. Thus, one could argue that Russia does not see the Customs Union and the ES agreements as an obstacle to create new artificial stages on the way to meeting Belarus' claims to duty-free deliveries of Russian energy resources.

The visit to Minsk by J̇tefan Ḟle, the European Commissioner, in July 2010 confirmed the interest of the EU to normalize relations with Belarus. The EU's intention to develop a detailed "action plan" for Belarus was announced during his visit – a document which would help to improve relations between the two sides and would aim at promoting reforms in Belarus. The Commissioner made it clear that progress in relations with the EU will be subject to democracy and openness of the upcoming presidential election. According to Ḟle, the EU stands ready to help Belarus with economic modernization, diversification of

oil and gas industry market reforms, in the case if Belarus demonstrates real progress in democratization.

An assumption that the cooling relations with Russia would be accompanied by a corresponding improvement in relations with Europe seems logical and consistent with the logic of the geopolitical "pendulum". However, this time the tradition was broken. For the first time the weakening of ties with the East has not strengthened ties with the West, but rather with North and South. The need for Belarus to find ways to diversify energy supplies is the reason.

Other events

This summer, the prime ministers of Belarus and Lithuania Sergei Sidorski and Andrius Kubilius agreed on the possibility for Belarus to participate in the LNG terminal construction in Klaipeda (decision on its construction was taken by the Lithuanian Government on 22 June). The Belarusian side hopes to ship up to 10 billion cubic meters of liquefied gas through the terminal, while Lithuania is expecting 3 billion or so. The government reports that Belarus, along with Lithuania, is studying the possibility of such a project also in Poland and Ukraine. According to the decision of the Government of Belarus, the Republic should decide on the project until November this year.

However, the greatest regional cooperation progress was made during the implementation of joint Belarusian-Venezuelan project on delivery and processing of Venezuelan oil to Belarusian refineries. As just three tankers with Venezuelan oil had arrived to Odessa by 1 July, the project was perceived by Russia as a "demonstrational" movement by Belarus to have a bluff factor in talks on energy. However, the project rapidly turned into an important factor for regional integration in the third quarter of 2010.

An agreement by the governmental officials of Ukraine and Belarus on oil transportation via Ukraine to Mazyr refinery in the Homiel region of Belarus on 13 July 2010 came as the first breakthrough in this direction, though after a series of delays. Along with the southern transit route, Belarus examined the northern one: a tanker with Venezuelan oil arrived in the Estonian port of Muuga on 23 July, and then the oil was transferred to *Naftan* refinery in Navapolack by rail.

The search for alternative routes for Venezuelan oil proceeded by a contract signed on 19 August by the Lithuanian *Klaipėdos Nafta* to supply a test batch of Venezuelan oil to *Transchema* company, the one responsible for promoting production of the *Belneftekhim* concern enterprises to the markets of Lithuania and other European countries. A tanker with a pilot lot of Venezuelan oil arrived at the port of Klaipeda on August 29.

During a visit by Sergei Martynov, the Belarusian Foreign Minister, to Riga on 23 August the possibility of transporting the Venezuelan oil to Belarus via Latvia was also mentioned.

Such a policy is beginning to resemble a Belarus-organized competition among the Baltic countries not only in the best economic conditions for the transfer of Venezuelan oil, but in better terms of foreign policy cooperation (based on intergovernmental treaties) with Belarus.

Thus, Belarus demonstrates to Russia it is not irreplaceable both in terms of raw material supplies for the Belarusian oil refineries and in terms of political support for Lukashenko. Sharing similar international recognition problems, the Belarusian leader and the Venezuelan President Hugo Chavez now help each other and make other states take Venezuela and Belarus into account, as together they manage a significant amount of energy.

Events contradicting to the trend and why they do not change the general picture

Contrary to predictions of many analysts, the Belarusian parliament ratified the Customs Code at an emergency session of both chambers (on July 3, said the President of Belarus to

media). Russia, Kazakhstan and Belarus signed a declaration of enacting the Customs Code at the EurAsEC summit on July 5 in Astana. It is thus applied from 6 July in all three countries.

As is known, the issue of customs duty on Russian oil and petroleum products to Belarus was the stumbling block in negotiations on the Customs Union. The Belarusian side insisted that the very existence of export duties on trade between the member states of the Customs Union is in odds with the logic of this economic block. The Russian side argued that the removal of export duties in mutual trade was an issue of establishing the Single Economic Space (SES), expected to be created by 2012. Finally, a compromise solution was agreed on: the customs duty on crude oil and petroleum products will be lifted for Belarus after the signing and ratification by our country of an entire package of documents to establish the Single Economic Space of Belarus, Russia and Kazakhstan. The vice-premier of Belarus Andrei Kabiakou announced it to media on July 5 in Astana. The appropriate decision was documented in the Protocol on certain interim exceptions from the Customs Union regulations, which was signed simultaneously with the decision to enact the Customs Code. Thus, the customs duty on crude oil and petroleum products to Belarus are supposed to be lifted automatically, without waiting for the documents on the SES to be signed and ratified by Russia and Kazakhstan.

Regarding the use of Venezuelan oil, rail is still the only realistic way to deliver it both from Odessa and from Baltic harbours. However, it is obvious now that this method is unsuitable for the transport of the planned 10 million tons a year, because of restrictions on the number of tankers the port is able to serve and the capacity of loading racks. It suggests the urgent issue of how to use existing pipelines, namely – Odessa–Brody and Polack–Ventspils.

The first of these is now being used in reverse mode to pump 9 million tons of Russian oil to Odessa. Switching it to the direct mode is a matter of the ability of Belarus to guarantee the pumping of large volumes of Venezuelan oil. The second of these is currently idle; making it work in reverse mode requires a construction of an extra pumping station. A Russian shareholder in the joint venture *LatRosTrans*, the operator of the Ventspils port, might oppose it. 66 per cent of the equity joint venture company is owned by *Ventspils Nafta* and 34 per cent by Russian *Transnefteproduct*.

Brief forecast for the next quarter and next year

Fundamental step-by-step restructuring of existing models of cooperation is the most likely in relations with Russia. None of the parties is benefiting from the existing integration structures (including the recently established Customs Union) the way they had expected. So far, Belarus is gradually losing preferential terms of energy supplies, and is unlikely to regain them; Russia's position is clearly to use all possible tools to postpone such arrangements. Russia is coming to perceive the phantom of the Union State and even the Customs Union as a burden on its way to the WTO and the ambition of the Russian economy modernization. As soon as now the idea of the CU is suffering from numerous exceptions and exemptions from free trade regime, something that happened to all previous inter-state projects. Thus, it is logical to assume the continuation of a trend of further erosion of the CU and simultaneous attempts to put blame on a "partner" for hampering the project.

On the other hand, the regional collaboration with Ukraine and the Baltic countries, in contrast, begins to show a clear tendency to converge on infrastructure cooperation. Belarus will certainly make every effort to use Odessa–Brody and Polack–Ventspils pipelines for the transit of Venezuelan oil.

In fact, the current geopolitical trends (gradual disengagement with Russia and regional meridional integration based on infrastructure projects) are suspiciously reminiscent of geopolitical dreams of the ideologues of "the Belarusian Renaissance" of the 90-ies and outline the looming pipeline system, the notorious "Baltic-Black Sea-collector". If this is the geopolitical

result of the rule by the originally pro-Russian President of Belarus, one cannot help recalling Hegelian “irony of history” concept.

TREND 5

Cultural Policy: the Europeanization and Belarusization ▲

Assessment of the forecast given in the last issue of BISS Trends

The forecast given in the previous issue of BISS Trends proved to be quite accurate. First of all, the Soviet-liberation mythology and themes were used during such an important event as the Independence Day in Belarus. The further internalization of national symbols and historical events (transferring them from “outside” into the public consciousness) also proved to meet the expectations, leading to a more complicated cultural landscape of Belarus and the wider promotion of ideas about the European origins of the Belarusian culture.

Nevertheless, the specified strategy of Belarusization and the further Europeanization of the Belarusian culture is not playing a decisive role in the field of cultural policy at the moment. This is confirmed not only by the relevance of the above-mentioned Soviet-liberation rhetoric, but also constantly emerging evidence by various civic initiatives of irregularities in the process of restoration of historical and cultural heritage, when an apparent conflict appears between the interests lobbied by officials and the declared principles of historic preservation. The declarative nature of measures to liberalize the sphere of culture becomes visible, a good example being served by a failure to attract much-needed culture market investors.

Justification for the new trend (July-September 2010)

July-September 2010 is characterized by minor positive dynamics and trends of Europeanization and Belarusization. This is confirmed by the active performance of the Belarusian Ministry of Culture in the international arena, the organization of Days of Belarusian culture in Hungary, Lithuania, Ukraine, Kazakhstan and the UAE. The Belarusian Ministry of Culture shares a series of events with counterparts from Poland and Lithuania dedicated to 600 anniversary of the Battle of Grunwald, indicating a great importance and symbolism of the event. In addition, the festival “Augustow Canal in the culture of the three nations” took place, the Minister of Culture Pavel Latushka met members of the genus Radzivil, the Polish director Krzysztof Zanussi, and the ministers of culture of neighbouring countries.

A number of governmental statements and initiatives can be considered as an extension of pragmatism in strategies of cultural policy, caused primarily by a pressing need to fundraise. This emphasis on pragmatism intersects with the trend of liberalization, but only to the extent acceptable to the official authorities.

The above trends are generally positive. Still, they are largely in odds with two major events that downgrade the symbolic value of attempts to find a self-identification in the context of European culture. These are the main events of the period under review: the Independence Day of Belarus and Dazhynki-2010. They continue the tradition of recourse to the Soviet myth supported by myths of “hostility” of the world (perhaps you can add a new moment, “malicious grin”, the Russian leadership) and the chilling “instability” of the global and chaotic world. In this context, the special role of the paternalistic state is stressed, as well as the concern for maintaining a local “greenhouse” stability which is constantly exposed to threats from the outside world.

Thus, in the third quarter of 2010, the state cultural policy is characterized by contradictions. The production of cultural meanings and values that are new for the Belarusian reality, as well as comebacks of the forgotten events, dates and names, are downplayed by the constant exploitation

of Soviet mythology. This complicates the possible identification of the Belarusian culture as an exclusively European one. It is also clear that this duality represents the boundaries of “Europeanization” of the Belarusian culture and history with the current government.

Description of key events that defined the assessment of the trend

A series of developments aimed at reactivation of cultural programs and the meanings, which make cultural origins of Belarus older, is a characteristic feature of the third quarter of 2010. It promotes inclusion and acceptance of the Belarusian culture in the framework of the European cultural tradition.

In this context a series of events dedicated to 600 anniversary of the Battle of Grønwald should be noted, which complicates the picture of the cultural past of Belarus and bring it closer to the Polish and Lithuanian cultural traditions. A kind of “Renaissance” in Belarus’ relations with its western neighbors is also confirmed by the organization of the festival entitled “Augustow Canal in the culture of the three nations” and the official intention to present the achievements of contemporary Belarusian art at the prestigious European competition and exhibition, 54th Venice Biennale in 2011.

Other events

In a series of events that complement the positive dynamics of the processes of Europeanization and Belarusization, one must mention a meeting of the Minister of Culture Pavel Latushka with representatives of the Radziwill family as one of the most famous names and characters of the pre-Soviet Belarus. Earlier perceived as “aliens”, Radziwills now are discharged into the category of foreign guests, giving an example of a remarkable transformation which, however, explicitly captures the limits of the claimed liberalization and policy of re-actualization of national cultural values and symbols of an alternative cultural landscape. Summing up the granting of a “guest” status to the Radziwill descendents: firstly, the government is not ready to restore property rights of Radziwills and, more broadly, the rights of other landowners, expropriated by the “red” power in the early twentieth century. Secondly, this lack of readiness of today’s government emphasizes the facade nature of the re-Europeanization of the Belarusian culture’s face.

An interview shared by the Deputy Minister of Culture Tadeush Struzhetski with the newspaper “Belarusians and Market” can also be noted in the context of liberalization. He voiced the interest of the state to increase private investment in culture. Liberalization trend is continued by the cancellation of certificates for touring concerts by Belarusian artists (it used to be mandatory to register and to pay a state fee).

Other signs of the search for a cultural identity are presented by the appearance of previously forgotten names on the cultural horizon: the decision to establish a monument in Minsk to the hetman of Ukraine, a native of Belarus Pilyp Orlyk, the opening of the monuments to Leo Sapieha in Lepel and the Grand Duke Vitaut in Hrodna region.

Events contradicting to the trend and why they do not change the general picture

Obviously, the use of Soviet mythology during the Independence Day celebration and the event “Dazhynki-2010” devalues the symbolic key trends of this period – Europeanization and Belarusization. The rhetorical Victory exaltation of the anonymous Belarusian people’s heroism and the propaganda of domestic agriculture achievements contrast sharply with attempts to “re-demonization” of the European culture, the rehabilitation of the Belarusian national symbols and the resuscitation of the Belarusian language. These contrasts within the official cultural policy make the degree of freedom and the mandate of the Ministry of Culture and its leadership more explicit. In addition, attention the gap is opening between ‘being’ and

'consciousness' in authorities' attitudes towards the restoration and preservation of historical and cultural heritage. Despite claims about special control by the Ministry of Culture, the historical appearance of Minsk and other cities does not change as much quality as quantity and rather for the sake of narrow clan interests.

Brief forecast for the next quarter and next year

Despite the deterioration in relations with the Russian leadership, the power discourse is not going to exacerbate the anti-Russian rhetoric by appropriate cultural and historical support measures. However, we can expect a kind of prolongation of the armistice between the authorities and civil society in the cultural sphere, which will set off the political wars in order to maintain the stability (of government, primarily) and the exclusion of the image of the Square from the public consciousness.

There is a reason to believe that the emphasis on selective and partial liberalization and westernization in the sphere of culture and the search for a different configuration of cultural codes is likely to persist in the long term and serve a logical reflection of the political games. However, one should not expect a radical revitalization of the European vector in cultural policy, since it involves more than declaratory commitment to democratic principles. They are incompatible with the current nature and values of the government, and therefore will continue to be substituted by manipulations of the historical memory of the Belarusian's.



5 December – February 2011

EXECUTIVE SUMMARY

On December 19, 2010, Belarus witnessed events that radically modified each of the trends that we monitor.

Firstly, in politics, we came across total de-liberalization and mopping up of the political landscape. Political prisoners reappeared in the country, and searches, interrogations and arrests became mass phenomena. The original objective of the repressions was to procure exhaustive information about the plans and sources of financing of the opposition, however, the repression machine never stopped there, but gained momentum.

In the economic liberalization sector, we observe either the lack of progress or minimum progress connected with emergency attempts to deal with macroeconomic misbalances.

Economic reforms are dissociated from politics to the maximum in the Belarusian model: the authorities are only ready to make moves that do not threaten the stability of the existing socioeconomic pattern.

In the quality of governance and supremacy of law section, we observe the absence of any progress and blanket application of selective "justice" on a case-by-case basis.

Geopolitically, the pendulum of Belarusian foreign policy temporarily stalled in the extreme eastern position, and Belarus temporarily got into the Russian gravitational field.

Finally, the last vector we monitor, cultural policy, has started performing a compensatory function: it aims at neutralizing and to some extent compensating for the clearly unpopular measures in other sectors of public administration.

TREND 1

Political Liberalization and Democratization ▼

Assessment of the forecast given in the last issue of BISS Trends

Our forecast about the growing de-liberalization and repressions against the opposition during the final phase of the election campaign, as the election day approached, proved to be accurate. There were arrests, documented threats, warnings issued for media and NGOs, furthermore, the practice of issuing warnings under article 193-1 was resumed. Predictably, December 19–20 saw the peak of the repressions. However, it was the intensity and massive nature of the repressions against political opponents that were totally unexpected, and so was the shocking avalanching escalation of de-liberalization. Some politicians had predicted that the post-election repressions would be even more notorious than the events of the year 2006, however, what happened in reality was clearly beyond all worst-case scenarios. The long-term phase of intensive repressions was another unexpected trend: it took six to eight weeks for the first wave of repressions to subside, much longer than the projected two weeks.

Compared to the intensity of repressions against participants in street protests, the political opposition and citizens engaged in civil society structures, the situation with the freedom of speech and freedom of association deteriorated to a lesser degree, which is in line with the forecast. Compared to previous quarters, the deterioration was very serious, though.

The main difference of the current situation from the one described in the previous survey is that the previous trend towards a limited liberalization suspended after December 19. At the same time, the political regime in the country remained unchanged; there was a marked tightening of the policy in the framework of the existing regime, probably accompanied by a redistribution of power of various groupings within the ruling elite.

The election campaign therefore finished not only with vote count manipulations with a view to giving the victory to the incumbent head of state (which was predicted in the pessimistic forecast of the democratization indicator), but also with a spike in repressions, which exceeded expectations (which was not foreseen in our forecast).

Justification for the new trend towards radical de-liberalization in the period in question is a simple task: manifestations of this trend are familiar to most Belarusians and are unprecedented in Belarusian political history. Repressions against political opponents reached an unprecedented scale, the most significant events being the arrest of seven presidential candidates on the night after the election day, criminal cases instituted against fifty people, mass arrests and beatings of participants in rallies, searches at NGOs and confiscations of equipment, and pressure on attorneys.

The lack of progress in democratization was manifested in the unpromising assessment of the election by OSCE ODIHR observers, as well as domestic monitors. OSCE mission observers said vote count conditions were bad or very bad at 75% of polling stations. Even the CIS mission, which never published its report, criticized some aspects of the election.

Description of the key event that defined the trend and explanation why it is important and defines the trend

Paradoxically, the main event of the trend in question was not the election itself, which finished quite predictably, but the post-election repressions. This is largely due to the strategy of the opposition candidates, who had banked on mass protests about a rigged vote count after the election rather than on getting a majority vote. We assume that this shift in emphases became a welcome strategy for the authorities, and the range of repressions obscured the claims against the quality of the election process and conditions of the vote count.

On the one hand, the range of repressive measures against the opposition was broad; on the other hand, the chief instruments of repressions had already been tested by the authorities: the arrest of over 700 protesters is commensurable with the events that followed the 2006 presidential election, when former presidential candidate Alexander Kozulin was imprisoned. The wave of searches and pressure on attorneys and human rights activists are quite habitual in Belarus. The new factors were the brutality of each measure and simultaneous application of many repressive measures, which resulted in an atmosphere of blanket repression against the opposition and civil society. Another factor enhancing the shocking effect of the repressions was that force was used immediately after polling stations closed and even prior to that (candidate Neklyayev had been beaten before the voting process was completed).

Although the mechanism of repression showed many of its sides during and after the election, public attention was focused on the criminal case on "mass disorders of December 19" – seven presidential candidates, some of their authorized representatives and members of their election headquarters, as well as regular protesters were charged with staging mass riots. Especially alarming is the fact that the events of December 19, which were essentially a peaceful protest action that was dispersed by the authorities with the use of force, is now reduced exclusively to the incident near the doors of the House of Government. During that episode, some doors and windows were shattered in the building, which is interpreted by the authorities as "mass disorders" (the president and the government media mention attempts of a "coup" masterminded from abroad). At the same time, most of the presidential candidates were not only staying far from that site, but were also trying to pacify those who were breaking windows. Finally, some of those accused of taking part in mass disorders were not even present at the square at that time. These facts, alongside the lack of action from the police, who were just watching the crowd for quite a long time before there came a command to disperse the rally, suggest that the incident was an act of provocation paving the way for the authorities to exercise repressions against the opponents of the regime.

According to the Human Rights Center "*Viasna*", as of March 2, 2011, 38 people still had a status of charged offenders in the mass disorders case, of them 26 were in custody awaiting trial, including two former presidential candidates; two were under house arrest, including one former presidential candidate; nine were released into their own recognizance, including two former presidential candidates. Twelve people are still "suspects", of them two are now abroad, most of those 12 are on their own recognizance, including two former presidential candidates. Four people had already been sentenced to three to four years in prison for participating in mass disorders; the international human rights community has recognized them as political prisoners. According to "*Viasna*" and Belarusian Helsinki Committee, over 200 people were summoned to the police for interrogation in the framework of the same criminal case, to say nothing of thousands of

Description of additional events

The mass disorders case is submitted to the court piecemeal, as components pertaining to separate accused persons are severed from the rest of charges. Besides that, there are other criminal cases underpinned by purely political reasons, for instance, charging of the leader of *Malady Front* (*Youth Front*) Dmitry Dashkevich and his associate Eduard Lobov with disorderly conduct. The circumstances of their arrest suggest that the oppositionists were simply framed: the scheme that had been used so many times to isolate opponents of the regime based on hooliganism and disorderly conduct charges is working again.

The arrests of over 700 participants in protest actions of December 19-20 took place not only during the dispersal of the rallies, but also within two weeks of the election day. The scale of repressions corresponds to the events of 2006, however, human rights activists report that

recent arrests were more brutal and involved beating (during the dispersal of the rally, presidential candidates Vitaly Rimashevski, Andrei Sannikov and Grigory Kostusev were beaten). Candidate Mikhalevich on February 28 reported tortures and brutal treatment of the offenders staying in the KGB investigatory isolation facility. Among those faced with administrative charges there were many journalists, and some of them (representatives of Belsat television channel, Radio Racyja) were warned that professional activity of foreign media without accreditation was inadmissible.

On February 16, 2011, Alexander Belyatski, the vice-president of the International human rights federation and head of Human Rights Center “*Viasna*”, received a warning from the prosecutor’s office on account of his activity in the framework of an unregistered organization with a threat of prosecution under article 193-1 of the Criminal Offences Code. The warrants authorizing searches in unregistered public organizations (for example, Human Rights Center “*Viasna*”, “Legal Assistance to Population”, *Student Rada*) contained notes that it was the fact that the NGOs were unregistered that stood behind the searches, which is an alarming signal.

A matter of special concern is the practice of pressurizing attorneys that was employed by the Justice Ministry. Attorneys do not have a chance to communicate with political prisoners (many of the attorneys saw their clients only once when accusations were officially presented), which deprives many of the accused persons of their right of defense. At least six attorneys either had their licenses revoked or were expelled from the bar association; the leadership of Minsk board of lawyers was condemned by the authorities, whereas the Justice Ministry started developing new rules of legal ethics.

The arrests and searches in apartments of human rights activists and human rights NGOs, as well as the interference of the authorities in the activity of bar associations are serious infringements on the freedom of association. Furthermore, the Justice Ministry addressed warnings to a number of NGOs (including the Belarusian Helsinki Committee), whereas the Public Association *Zabota (Care)*, in which former candidate Neklyayev was engaged, now undergoes judicial liquidation procedures. Two significant organizations – Party BNF and Union of Artists – have faced threats of being kicked out of their premises in downtown Minsk. As for the Belarusian Social-Democratic Party *Hramada*, the Justice.

Ministry has introduced what can be considered external management, since the ministry does not recognize the authority of the governing agencies of the party elected at a congress in 2010, but recognizes the powers of the previous chairman. With regard to repressions against opposition activists and some street protest participants, positive changes are visible.

Description of events contradicting the trend and why they do not change the trend

In January 2011, Chairman of the Constitutional Court Miklashevich came out for the introduction of the post of an ombudsman in Belarus, which means the country essentially recognizes the recommendation of the global community as valid. However, statements of this kind used to be made in the past, whereas the influence of the chairman of the Constitutional Court in the Belarusian system is not sufficient to start developing the framework for a new institution.

In 2010, the Justice Ministry and central justice departments of region administrations and Minsk city administration registered 134 new public associations (five international, 15 republican (national) and 114 local organizations), 14 new funds (one international and 13 local funds). The year 2010 thus set a new record since 2005 in terms of the number of newly registered organizations, although the list includes some of the associations that were previously denied registration (for instance, Youth public association *Falanster (Phalansture)*). The economic court of the city of Minsk created a precedent by nullifying the denial of registration

of the Association of extended training and education. At the same time, the government is working on a new law on non-profit organizations, which will apply severe requirements to their creation and operation, the same that public organizations and political parties have to meet now. The current version of this bill is still being revised, as there have been remarks from both some ministries and civil society.

Brief forecast for the next quarter

It looks like de-liberalization reached its peak in early 2011 and will inevitably be replaced by gradual liberalization in the form of less intense repressions (but not systemic, long-term institutional improvements). Repressions will stop their growth, mass disorder cases will be heard during the first half of the year; dozens of participants in "mass disorders" will hear verdicts of guilty and sentenced to three to five years in prison. Criminal cases against at least two of the former presidential candidates will end in verdicts of guilty of arranging those "mass disorders". The severity of sentences will depend on political circumstances and the degree of international pressure on the Belarusian regime. Repressions against the mass media are unlikely. Forced liquidation of objectionable NGOs and political parties is more probable, as well as new barriers to their activity. Another registration bid of the Party Belarusian Christian Democracy will likely fail, whereas the deprivation of the Party BNF of its office in downtown Minsk will become a painful blow on the party and may entail warnings for violations in the registration of the legal address. The adoption of the Law on commercial organizations will be postponed until the second half of the year or even later.

Brief forecast for the year

The likeliest scenario for the year is the gradual transition of the Belarusian regime into the "*stand by* for dialogue with the West" phase (until autumn 2011). Since the dialogue will very likely be centered on the fates of political prisoners, large-scale repressions should not be expected in that period, however, the same applies to liberalization. The second half of 2011 will see a stagnation of liberalization processes. The state may resume its rhetoric on possible changes in the election regulations on the eve of the parliamentary elections of 2012 and may announce certain indulgencies for NGOs (introduction of social mandate norms, abolition of the moratorium on registration of organizations in Minsk). The public advisory council at the Presidential Administration may resume its work.

TREND 2

Economic liberalization —

Assessment of the forecast given in the previous issue of BISS-Trends

The forecast regarding Belarus' economic policy that we provided in the previous issue was only partially correct. On the one hand, the long-term administrative pressure on the country's economy with a view to achieving the exorbitant wage and GDP targets definitely resulted in macroeconomic misbalances. However, the search for the best solution to the problems took the form of not only an expanded cooperation with the IMF mission for joint elaboration of a turnaround program, but also the policy of macroeconomic populism: Belarus placed Eurobonds, took out loans and conducted a corny search for new rents to shore up what is clearly an inefficient economic structure.

Justification for the new trend

The previous period was characterized by the adoption and implementation of crucial decisions in the field of investment attraction, labor market liberalization, borrowing and price

liberalization, and, on the other hand, a natural failure of denationalization efforts, privatization and public sector management reform. It seems the government has opted for the manual control mode in modernizing the economic management system, which may often have conflicting results. We can thus speak about case-by-case liberalization (primarily price and tariff liberalization), however, these measures are definitely not sufficient to resolve the economic problems Belarus is faced with now and may be cancelled any time.

Description of key and additional events that defined the trend

The entire month of January was marked by uncertainty because of the quarrel over the terms of oil supplies and indefiniteness about the prospects of the construction of the Belarusian nuclear power plant. After shutting the European vector of external policy and having major concerns about possible economic sanctions of the European Union (we will not argue here whether the application of these sanctions has been and remains realistic), the Belarusian regime shifted its reliance to projects with Russia and, to a lesser degree, with China. Placing its bet on the Russian square in the geoeconomic casino, Belarus was anxiously watching the roulette wheel spin for what seemed a very long time.

Since there were no contracts for oil supplies to Belarus covering the year 2011, Russian companies suspended deliveries to Belarus on January 1. The dispute over the terms of trade unfolded amid Moscow's decision to abolish export duties on oil for the members of the Customs Union. However, in return, Russia insisted on a USD 45-per-tonne premium. The conflict was resolved as late as January 25, when Belarusian and Russian companies reached an agreement on resumption of supplies. The specific conditions of supplies remain undisclosed, however, there are good reasons to believe that Belarus agreed to buy crude oil at a price including a USD 46-per-tonne premium.

At the same time, the project to build Belarus' first nuclear power plant was given a major impetus on January 25, when *Rosatom* corporation head Sergei Kiriienko and First Deputy Prime Minister Vladimir Semashko said that the agreement on the construction of the nuclear power plant would be signed in the first quarter of 2011. The Belarusian nuclear power plant will cost an estimated USD 6 billion. The first power unit is expected to be launched in 2016, and the plant is projected to reach its design capacity in 2018. There are still some points at issue that will have to be tackled later, though.

The crusade against macroeconomic misbalances mostly employed instruments of external borrowing. Despite the verbal ban of President Lukashenko to borrow and his directive to "keep within means", Belarus placed a seven-year USD 800 million Eurobond issue at a coupon rate of 8.95%. Foreign borrowing through Eurobond offering thus appeared to be pretty costly. Furthermore, on February 25, Lukashenko inked ordinance № 75 to allow local authorities (regional executive committees and Minsk city executive committee) to issue Eurobonds to provide liquidity for their investment projects. Interestingly, these liabilities will be considered a debt of local authorities and will not be included in the country's foreign debt. In fact, Belarus continues using the rent of foreign loans to preserve its socioeconomic model.

Let us get back to the events that define the "liberalization" trend. Firstly, Prime Minister Mikhail Myasnikov in January instructed the government to eliminate obstacles to the development of the logistical sector. The initiative envisages simpler taxation procedures and document flows for logistical services. This measure seems quite logical, because Belarus is willing to use new possibilities offered by logistical business and freight transport within the framework of the Customs Union.

Secondly, Belarus reduced the number of mandatory primary accounting documents in pursuance of decisions of the president and the government to change to International Financial Reporting Standards (IFRS). Thirdly, some new investment projects were outlined: Lukashenko

decided to allow foreign investors to finance the development of a potash salt field in the vicinity of Soligorsk, Belarus announced plans to sell a 25% stake in Belaruskali and set in motion the *Technopark* project.

Description of events contradicting the trend

In January, Belarus de facto imposed a ban on using bank loans to make advance payments for import: from now on, to extend loans to corporate entities engaged in importing commodities, banks are supposed to demand documents confirming receipt of goods. This measure is an instrument to tighten money market policies, which is capable of encouraging the shadow market of financial services in Belarus.

At the same time, the ban on lending can hardly be called a de-liberalization feature; it is rather a forced macroeconomic measure.

Forecast for the second quarter of 2011 and entire year

On the one hand, the government led by Myasnikovich will be lobbying for improvement of the business environment for small and medium-sized business, hence selective liberalization. On the other hand, the government will have to address the problem of the balance of payments by way of case-by-case privatization and additional external borrowing. Finally, we do not rule out devaluation of the Belarusian national currency in the next six months.

Based on the framework hypothesis, we forecast that the year 2011 will see efforts to normalize relations with the West, Belarus will make up its mind to cooperate with the IMF and will do its best to restore economic ties with Europe. Then again, this forecast is built on the assumption that the EU will decide against slapping sanctions on the Belarusian potash and petrochemical sectors.

TREND 3

Good governance and the rule of law ▼

Assessment of the forecast given in the previous issue of BISS-Trends

The mass protests that took place on December 19 and repressions that followed naturally left a mark on all areas of public life, including the quality of governance and rule of law. The arrests of civil society activists, investigatory actions, enforcement efforts of KGB and trials of those accused provided a clear picture of what was going on in the law enforcement sector, namely that provisions of the law and other regulatory acts are interpreted exclusively to the benefit of the authorities and law-enforcement agencies. These unfortunate events somewhat overshadow the few positive changes in such components of the trend as protection of property rights and quality of corporate governance. However, we have to admit that against all odds the authorities continued promoting the package of “liberalization” reforms. As we had expected, the long-awaited Directive № 4 on promotion of enterprise was adopted late in 2010 (on December 31). In February 2011, a new version of the Law on Economic Entities came into effect, and a presidential ordinance on price regulation was approved. The tendency towards the gradual introduction of some new elements of information society continued, this time as a new initiative – the application of electronic auctions in state procurement contracts.

Justification for the trend in the period in question

All of the preceding characterizes the Trend in the analyzed period as “absence of progress”, because the new legal acts and initiatives passed in the period at least do not deteriorate the status quo. The few months following the presidential election were marked by

the adoption of specific regulatory acts with simultaneous declarations of the active elaboration of additional liberalization arrangements, specifically Directive № 4, which, quoting Belarusian officials, is already “palpable”. Also indicative are apparent attempts of the authorities to “flirt” with the Belarusian business community: all concerned individuals and associations are invited to make proposals regarding the documents implementing the key provisions of the Directive by the end of March, and the authorities will take time to decide which of the proposals should be included in the new framework to regulate entrepreneurial activities and in what form. It is also important to bear in mind that most of the amendments are introduced by presidential regulatory acts, which do not require lengthy reviews and coordination procedures, hence a chance to respond to changes in the current situation fast enough; however, the risk of inconsistency is quite high, for any ordinance or decree can be altered as easily and fast as it was adopted.

Description of key event that defined the trend and explanation why it is important and defines the trend

Amid the indicatively selective law enforcement practices, the key event of the period in question was the adoption of Directive № 4 “On the Promotion of Entrepreneurial Initiative and Encouragement of Business Activity in the Republic of Belarus”, which is so innovative and progressive in its essence that if all planned arrangements were implemented, the liberalization trend curve would spike. The directive declares the principle “competition wherever possible, state regulation wherever indispensable”. The document envisages measures to protect and develop private property (including irreversibility of privatization of state property on condition the new owner complies with laws), further improvement of controlling and supervisory activities with emphasis shifted to prevention of offenses, encouragement of public private partnership and efforts to ensure the stability of regulations and sustainable quality of regulatory acts.

Description of additional events

Additional events corroborating the trend in the period in question include the coming into effect of the Law “On amendments to the Law of the Republic of Belarus “On economic entities”, which simplified the procedure of establishing economic entities and decision-making regarding the terms of reference of the general meeting of shareholders, and increased the degree of protection of minority shareholders. Also noteworthy is ordinance № 708 “On holding electronic auctions”, which became another move towards information society.

The concept of criminal liability, which is to be implemented by 2015, envisages arrangements to decriminalize certain crimes against property, economic procedures and some other offenses, and introduction of bail as a measure of restraint. Finally, ordinance № 72 “On certain issues of price/tariff regulation in the Republic of Belarus” stipulates free price formation as a general rule and contains a definitive list of exclusions and powers of state authorities in regulation of prices and tariffs.

Description of events contradicting the trend and why they do not change the trend

In early February, Chief of the State Control Committee A. Yakobson remarked upon the failure of Russian *Unimilk* to meet its investment commitments. The statement may be interpreted as the willingness of the state to exercise close control of the activity of private investors and interfere in corporate governance schemes at private companies. However, no unambiguous conclusions may be drawn based on this information, therefore this fact was not taken into account when the trend was assessed.

Brief forecast for the next quarter

In the second quarter of 2011 (April), the government, National Bank of Belarus and other state authorities are expected to come up with specific draft regulatory acts to implement the key provisions of Directive № 4. In this regard, the few months to come will be intriguing in the context of the further development of the trend. The new law on regulatory acts is likely to improve the law enforcement system, although the key obstacle to the stability and impartiality of law enforcement practices is the virtually unlimited regulatory and administrative powers of the president and his team.

Brief forecast for the year

The year 2011 has been declared the year of enterprise/initiative and will be marked by efforts to implement Directive № 4. The fact is the document includes progressive and reasonable rules, however, there are good reasons to have doubts that all of its provisions will be implemented soon enough. From the look of it, the trend of “controlled liberalization”, observed throughout last year, will continue in 2011, with carefully measured portions of liberalization laws and presidential rulings. Naturally, an essential prerequisite for the trend to continue is the absence of drastic changes in the internal and external economic and political environments. The issues of law enforcement in general and consistency of the legal system are still unresolved.

TREND 4

Geopolitical orientation: Relations with Russia ▲

Relations with the EU ▼

Assessment of the forecast given in the previous issue of BISS-Trends

Despite the forecast we made in the previous BISS-Trends issue, the outcomes of the presidential campaign-2010 compromised all the achievements in the relations with the European Union and resulted in a sharp strengthening of the eastern vector of the Belarusian external policy and general dependence of Belarus on Russia. The dissociation with Russia did not increase; on the contrary, both countries managed to reach agreements on most crucial issues prior to the presidential election in Belarus.

Justification for the new trend

The new geopolitical trend features a sharp deterioration of relations with the EU and the United States and reapplication of the policy of partial isolation of the Belarusian regime by the West. In the first quarter of 2011, the “geopolitical pendulum” reached its most eastern position. Back in December 2010, immediately after the election, the Belarusian parliament ratified a package of documents to establish the Common Economic Area with Russia and Kazakhstan. On January 1, 2011, new terms of oil supplies to Belarus within the Customs Union came into effect.

In response to mass beatings and arrests of participants of protest actions, the European Union on December 19 reinstated the original visa ban for Belarusian officials and extended the list of officials that are denied entry in the EU. The United States joined that move and discontinued the suspension of the economic sanctions against a few Belarusian enterprises. Although officially the Council of the European Union did not issue any specific instructions, Brussels de facto froze its top level contacts with Minsk (except for Foreign Minister Sergei Martynov), suspended assistance programs and made it clear that Belarus would not be eligible to receive macrofinancial assistance from the EU.

Description of key events that defined the trend

On December 21, 2010, the House of Representatives of the National Assembly, the lower chamber of the Belarusian parliament, adopted a package of 18 international agreements to establish the Common Economic Area of Belarus, Russia and Kazakhstan (just like President Lukashenko promised during his press availability on December 20), which became a crucial move towards further deepening of the integration in the post-Soviet space.

Furthermore, according to the agreements inked in Moscow on December 9, Belarus was enabled to buy Russian crude oil and oil products without paying duties on condition it transferred the entire volume of export duties on oil products to the Russian budget (except for those refined from its own crude and imports from Venezuela). In January, the volume of oil subsidies to Belarus was announced at a meeting of the two premiers – Russia offered Belarus a subsidy of USD 4.1 billion. This afforded official Minsk additional room for maneuver in the western direction and enabled the country to postpone liberal reforms.

The brutal dispersal of the rally in Independence Square on December 19, 2010 and arrests of opposition leaders and activists that followed became a turning point in the Belarusian relationship with the West. In mid-January, representatives of the opposition, human rights organizations and relatives of arrested activists visited European capital cities to meet with European politicians and officials. Those meetings, alongside hearings of the Belarus issue arranged in party groups and extraordinary session in the European Parliament on January 12 predetermined the unprecedented severity of political groups' proposals regarding the resolution of the European Parliament on Belarus. However, the final resolution and decisions of the Council of the European Union with respect to Belarusian officials were quite gentle: the EU imposed visa sanctions and pledged to revise its policy on Belarus. Nevertheless, the process of normalization of Belarusian-European relations was severed, and the EU de facto limited contacts with the Belarusian authorities and suspended assistance programs.

Description of additional events

Amid the general deterioration of the relations with the European Union and the USA, Minsk saw its relations with Poland and Germany become strained like never before – the two western countries were accused of financing the Belarusian opposition with a view to staging a coup in Belarus. This happened despite the fact that it was mainly German and Polish diplomats that made the most effort in cooperating with the existing regime and dragging Belarus into European processes.

At the same time, a number of statements made both by Belarusian and European officials, as well as the wording of the resolution issued by the European Parliament and decisions of the Council of the European Union suggest that neither side appreciates the current state of things and both would like to get back to normal relations as soon as possible.

Although Belarus is formally a member of the Eastern Partnership Initiative, it was decided that the *EURONEST* parliamentary dimension of the Eastern Partnership would be launched without Belarusian MPs, which makes it clear that the Belarusian authorities should not rely on the Eastern Partnership as a platform to improve Belarus' relations with the EU.

Description of events contradicting the trend

In late February, the Council of the European Union approved the mandate of the European Commission for holding negotiations between Brussels and Minsk over simplifying the visa regime. The relevant document was submitted to the Council of the European Union back in November 2010, but its approval took place after the presidential election in Belarus and introduction of visa sanctions against some Belarusian officials. The European Union used to impose democratization and liberalization conditionality upon the possible simplification of the visa regime, however, after the events of December 19, a decision was made to not only

put additional pressure on the Belarusian government, but also facilitate contacts between Belarusians and EU citizens by way of simplifying visa procedures and reducing Schengen visa fees.

Brief forecast for the next quarter

In the next quarter, the situation that was observed at the start of the year will very likely stay the same. The relations with the European Union will be overclouded by politically-motivated trials of the opponents of the existing regime, therefore the possibility of the beginning of a new dialogue between Minsk and Brussels is doubtful. Belarus will be focused on resolving its internal problems rather than restoring its relations with the West.

Brief forecast for the year

Since official Minsk cannot benefit much from the current level of relations with the European Union, which substantially weakens its bargaining position in any sort of negotiations with Moscow, the Belarusian authorities will try their best to get back to normal relations with the EU. This can happen only after trials of opposition activists and mopping up of the political field inside Belarus. The commencement of a new electoral cycle (Belarus is scheduled to hold a parliamentary election in 2012) will also encourage the authorities to tackle foreign political problems and address the issue of legitimacy of the Belarusian parliament. Based on this, we can expect a resumption of the dialogue between Minsk and Brussels on the restoration and deepening of relations this autumn or winter.

TREND 5

Cultural policy: stagnating liberalization and Belarusization on leftovers —

Assessment of the forecast given in the previous issue of BISS-Trends

The forecast provided in the previous issue of BISS-trends was accurate. For one thing, this pertains to the indication of the special status of culture policy in the near term, aiming at neutralizing and to some extent compensating for the clearly unpopular measures in other areas of public administration. As was forecast in the previous issue, the authorities failed to make up an integral long-term strategy for Europeanization of Belarusian cultural space and instead came up with a case-by-case redecoration of culture Olympus, which cannot efficiently perform its functions of a symbolic counterweight to balance the total deconstruction of the dialogue with civil society. In the quarter under analysis, the policy of relative liberalization of the cultural space was neutralized by the events that started on December 19, 2010.

The end of the armistice between the authorities and civil society that was marked in Minsk's Independence Square on December 19, reverberated through the culture space, when privately-owned *AVTORADIO* station was shut down, despite its fitting perfectly into the policy of Belarusization that is actively promoted by the state. Nevertheless, a few measures taken during the period in question may be interpreted as an attempt to prolong the life of the rapidly fading liberalization of Belarus' cultural space, therefore, it would be proper to tag this phase as stagnation.

Justification for the new trend

The arrests, searches at alternative private media, closure of *AVTORADIO*, concealed efforts to separate poet Neklyayev from politician Neklyayev and sever the author from his work (examples include A. Yarmolenko's and N. Cherginets' contemplations about Vladimir Neklyayev, similar in their logic) – these are attempts to depoliticize the cultural field of the country and keep the appearance of the autonomous development of the cultural landscape of the country.

What we observe here is a tendency towards elimination of all repressive actions of the authorities in the culture sphere, as well as their consequences, as if they were a matter of some other reality – the reality of the case of mass disorders. This strategy accentuates the real degree of (in)dependence and servility of the Culture Ministry and its head. An analysis of the state culture policy of that period demonstrates this strategy: the Culture Ministry is trying to prolong the image of the protector of the Belarusian cultural heritage and European roots of Belarusian culture (for example, P. Latushko's speech at a board meeting in Mir) by manipulating secondary events. Nevertheless, the methods of such struggle are not quite innovative, whereas the notion of Europeanization has its peculiar substance, in which the central aspect is not democratic values and freedom of self-fulfilment, but the work to "create a positive profile" of the country abroad.

After the events of December 19, all international contacts and meetings of the culture minister have been minimized. The few events that promote Belarus' connections with other countries are the XVIII Minsk international book fair, attended by representatives of foreign and private Belarusian publishing houses. This period is also characterized by the general reduction in activity in the cultural sphere, however, reasons are not purely seasonal. To sum it up: in the period December 19 through March 1, in the context of uncontrolled flows of aggression coming from the authorities, which filled even the cultural space of Belarus, the attempts of the Culture Ministry to keep working on the exportable image of Belarus and its culture and foster further Belarusization of the cultural landscape acquire a totally grotesque interpretation.

Description of the key event that defined the trend and explanation why it is important and defines the trend

The key event marking the end of the cultural armistice between the authorities and civil society, the quintessence of the continuing repressions that hit, among others, the culture sector of the country, was the shutdown of the private FM radio station *AVTORADIO*, a move that is not legally justified and that does not suit the declared priority of Europeanization of the Belarusian cultural field. On the other hand, this event emphasizes the instrumental nature of the European vector in the development of Belarusian culture in the official discourse, where Europeanization is reduced to a growth in interdepartmental contacts that are measured quantitatively rather than qualitatively. Moreover, just like in the political sector, the culture field was a complete failure in all its attempts to improve the cultural image of the country abroad: the resurrection of pre-Soviet cultural values and historical figures that complicate the cultural identity of Belarus cannot substitute for the basic principles of today's European cultural discourse – the freedom of self-expression, open dialogue and pluralism.

Description of additional events

The contradictory nature of liberalization and Belarusization in the cultural sector also manifests itself in the adoption of the State program "Culture of Belarus" for 2011–2015, which continues the tradition of five-year scheduling born back in the Soviet times and expressing the criteria of cultural development in figures, percentages and other quantitative indicators. This event to a great extent complements the specific character of cultural policy since mid-December 2010 through March 2011, namely, its ambiguity and instrumental nature. Cultural policy of the Belarusian state in that period is quite ambiguous: on the one hand, there are many projects aimed at developing Belarusian culture; on the other hand, Belarusian culture is regarded not as a value in itself, but as an ideological instrument to control society. Economic performance of the culture sector is given a priority status: the program for cultural development does not rule out a transfer to public private management structure and reiterates plans for Belarusfilm studio to break even and support itself. S. Klimov, the director of the

cultural-historical complex Nesvizh Castle, in a recent interview emphasizes the need to reap economic benefits from cultural and historical entities, whereas preservation of the authenticity and integrity of cultural monuments pales into insignificance. In this respect, the discussions around the project to revive Lida Castle are quite indicative: the restoration of the castle followed the traditional pattern, when only the interference of the media helped influence the process of restoration, which neglected the authenticity principle.

The selectiveness of the Belarusization policy, or rather the lack of consistency, is manifested in the authorities' neglecting the "Day of Native Language" event arranged by the Fellowship of the Belarusian Language. The replacement of the head of the Belarusian Television and Radio Company (G. Davydko has been appointed new director) has not resulted in major changes in the policy of the major media resource: television largely remains Russian-speaking, the hopes of liberalization of television and radio never came true, Belarusian state television performs the same ideological functions as before.

Description of events contradicting the trend and why they do not change the general trend

One of the events that fail to fit in the logical framework of the resumed war against civil society and increase in repressions is the creation of the advisory council on cultural issues, which includes, among others, representatives of "unofficial" culture. As of today, the precise terms of reference of the Council are unknown, and so is the real degree of the involvement of representatives of unofficial culture. There is reason to believe that the Council, just like the Council with the Presidential Administration, is just a nominal platform for the authorities to communicate with independent experts and actors, who will be used to demonstrate the eagerness of Belarusian officials to engage in open constructive dialogue.

The coming into effect of the presidential ordinance on the liberalization of concert business can also be interpreted as a positive move: it promotes concert business in Belarus and is a result of joint efforts of legislators, musicians and businessmen.

Brief forecast for the next quarter

One can be fairly sure that repressions will continue in the near future: the war against civil society will continue in all areas of public life, including culture. At the same time, the authorities can be expected to attempt to use the Culture Ministry to camouflage the critical contradictions with the declared work aimed at Europeanizing the Belarusian cultural tradition and sophisticating its cultural horizon, and continue the defined strategy of depoliticization of the local cultural space.

Brief forecast for the year

Making forecasts in the context of the state policy that was retuned on December 19 is a tough task, nevertheless, we may expect the authorities to continue mopping up the cultural landscape of the country while denying any potentially meaningful actor any possibility of defining the profile of contemporary Belarusian culture independently. The authorities will therefore encourage further marginalization of representatives of "informal" culture. The authorities will use both liberalization and Belarusization of culture as a bargaining chip and implement them patchily.

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